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ABSTRACT

Research was conducted to define methods for creating jobs for urban youth through small business expansion, particularly in Chicago. This report presents recommendations derived from the research. The first section suggests ways of increasing the effectiveness of Chicago's small business/neighborhood economic development efforts. The second section summarizes the experiences of other states and cities in targeting their public capital toward community development and small business growth. The role of the State government in small business is addressed in the third section. The fourth section analyzes shortcomings in the existing Federal incentives which encourage small business to hire disadvantaged, hard-to-employ workers in the Chicago area. (MK)

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Developing Jobs and Neighborhoods through Small Business Growth:

TRUST

Recommendations for Action

Researched and written
by Michael S. Holzman
for the Jobs Study
Committee.

Sponsored by Trust, Inc.
Chicago, Illinois

August, 1980

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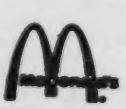

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SUMMARY OF RECOMMENDATIONS

During its year long study process, the Jobs Study Committee concentrated its research on methods to create jobs for urban youth through small business expansion. Although the recommendations contained in this report are specifically addressed at Chicago and Illinois manpower and economic development programs, they present essential policy and administrative changes that are applicable to other states and municipalities.

The recommendations are presented in four sections.

The first section suggests ways of increasing the effectiveness of the City of Chicago's small business/neighborhood economic development effort. Particular attention is focused on methods for leveraging private investment dollars into potentially viable commercial strips. Loan programs for financing industrial and retail expansion, facade renovation programs, and funding for local business groups are also discussed.

The second section summarizes the experiences of other states and cities in targeting their public capital toward community development and small business growth. Specifically, the recommendations address the problems of "linking" deposits of public monies to encourage community development lending, prudent investment of public pension funds to assist small business growth and increased utilization of small business investment companies.

The third section addresses the State role in small business capital formation and job creation. The innovative job creation efforts in Massachusetts and Connecticut are presented with particular reference to their applicability to Illinois. Recommended is the establishment of an Illinois Job Creation/Capital Formation Task Force to develop a legislative package which supports small business job creation.

The fourth section analyzes shortcomings in the existing federal incentives which encourage small businesses to hire disadvantaged, hard-to-employ workers. Particular attention is focused on the implementation difficulties of the Targeted Jobs Tax Credit, Private Sector Initiatives Program, and Placement and Retention programs in the Chicago area.

SECTION ONE: CHICAGO'S NEIGHBORHOOD ECONOMIC DEVELOPMENT EFFORT

Problem: Improving Chicago's Commercial Revitalization Programs (p.11)

Since the 1950s there has been a substantial shift in the retail base of the metropolitan area from the city to the suburban ring. The decline of Chicago's retail base has not only had a serious impact on the city's retail sales, but also on the commercial employment base and the vitality of the neighborhood shopping strips. Unfortunately, the City of Chicago's efforts at revitalizing these commercial shopping districts has in the past been characterized by a lack of overall program coordination, limited support of local economic development groups, and an inadequate range of program offerings.

Recommendations: (p. 13)

Only a comprehensive commercial revitalization approach, which provides each

business district with a wide array of development programs can begin to change shopping patterns and rebuild the vitality of urban retail districts. If the City Department of Planning would implement the following recommendations, it would create a more effective Chicago commercial revitalization program:

- The city should increase its selective funding of staff and operating costs of local business associations involved in commercial revitalization on a matching basis.

- The City Economic Development Unit should develop a standard basis for selecting revitalization areas for additional funding.

- The city should provide matching funds to neighborhood economic development groups to enable them to develop a local planning capacity.

- The City Economic Development Unit should create a technical assistance "Resource Bank" to provide local economic organizations with the specialized resources required to revitalize business/industrial districts. The services to be provided should include:

    - architectural assistance
    - market analysis
    - retail attraction
    - professional advertising
    - coordination of resources

- The city should add the following financial tools to its commercial revitalization effort:

    - the city should expand its loan packaging staff
    - Chicago should adopt a loan/grant facade renovation program to encourage merchants to rehabilitate exterior facades and make sign improvements
    - The City of Chicago should increase the use of special service areas as a tool for local economic development
    - the city should loan funds to cover a portion of the merchant cash match in Small Business Administration 502 loans for credit worthy small businesses.

Problem: Improving Chicago's Neighborhood Industrial Revitalization Programs (p.19)

Like most midwest and northeast urban centers, Chicago has experienced severe losses in its industrial base both to the suburbs and to the Sunbelt states. While the industrial exodus has stabilized in recent years, the industrial job losses that occurred during the past decade have had harsh effects on the income levels and quality of life in the city's neighborhoods.

Recommendations: (p.20)

The committee recommends that the city implement the following programmatic changes to strengthen its industrial base:

- The city should provide staff and planning funds to local industrial councils so that they can arrange long term financing packages, attract new firms, and plan industrial infrastructure improvements on a matching basis.

- Chicago should initiate a Bank Participation Plan, similar to those operating in Baltimore, San Francisco and eight other cities, to provide long term fixed

asset financing to businesses seeking loans of $500,000 or less.

- Chicago should develop a pilot interest underwriting program to reduce interest rate costs for job generating businesses.

- The County Board should immediately improve the operations of the current Industrial Tax Incentive Ordinance.

SECTION TWO: TARGETING INVESTMENTS OF PUBLIC CAPITAL TO JOB GENERATING SMALL BUSINESSES

Problem: Linked Deposits (p. 25)

In the last few years, states and cities have started to invest their idle cash deposits with banks that make loans to certain borrowers that experience inadequate access to credit. By depositing these public funds in banks with a community reinvestment record, government officials will be able to increase the limited bank funds available for such neighborhood development activities as small business expansion, home mortgages, and housing rehabilitation.

If properly designed and publicized, a linked deposit system can have positive effects on job creation and encourage neighborhood development lending. Although Chicago requires its bank depositories to disclose their lending portfolio, the city does not "link" its deposits with banks that have favorable community reinvestment records. While the State of Illinois does operate a linked deposit system, it does not target its investments to banks with track records in community reinvestment lending.

Recommendations: (pp. 28, 30, 32)

The Committee recommends that the City of Chicago adopt a "reinvestment quotient" system by ordinance which links deposits of city monies in banks which reinvest in neighborhood small businesses and communities. Banks would be given extra interest in their bids for city funds if they have a favorable annual loan record in the following areas:

- Commercial loans of $500,000 or less
- Mortgage loans for 1-4 unit buildings
- Mortgage loans for 5-100 unit buildings
- Home improvement loans

The Committee also recommends that the State of Illinois revise its existing linked deposit system to better reflect state goals of community development and job creation. This could be done by taking the following steps:

- The Treasurer, Department of Commerce and Community Affairs, and the Governor should revise the weights the Illinois Community Service Program gives to certain loans in order to encourage state urban and rural community development objectives, especially for small business expansion.

- Guidelines for the Illinois Specific Opportunity Program should be delineated and extensively marketed to banks, municipalities and

community development corporations. Additional staff is needed to promote the program to Illinois banks and aggressively develop programs utilizing state deposits to encourage community revitalization.

Problem: Public Pension Funds (p.32)

Even though the public is becoming increasingly aware of the enormous potentials of pension funds for job creation, well over one-half of all private and public pension funds are invested in the stock of the country's largest corporations. States like Minnesota, Massachusetts, New York, California, and Wisconsin have extensively studied and analyzed their pension systems and developed policy recommendations which have led to the use of these monies for in-state economic development.

Very little is known about how and where the Chicago and Illinois public pension boards invest their over $8 billion in assets and if they could be prudently invested to encourage community job creation. What are the legal requirements which restrict the use of pension funds? What progressive pension fund programs have worked in other states and cities? Could the management and yields of the funds be improved?

Recommendations: (pp. 36, 38)

The Committee recommends that the City of Chicago and State of Illinois take the first steps toward strategically investing their pension dollars by doing the following:

- The City of Chicago should form a study commission of key participants in the pension system to investigate where the funds are being invested and if they could be prudently invested in job creating Chicago area companies at levels equal or higher than current rates of return.

- The State of Illinois should undertake an intensive study of its pension system; where it invests its resources ; and whether they could be better invested to serve state goals of job creation and economic growth.

Problem: Small Business Investment Companies (p.39)

Small Business Investment Companies are a source of high risk venture capital for expanding small businesses. They represent one possible solution to the equity capital crises of small businesses. While SBICs have been extremely cost effective in the past, they have also been characterized by problems of conservative investments, undercapitalization, and inadequate private sector support.

Recommendations: (p. 40)

The Committee would like to see SBICs become an integral component of the City of Chicago's small business revitalization effort. To do this, we recommend that the city, state, or a private foundation retain a qualified consultant to investigate the potential of utilizing SBICs for neighborhood economic development. The consultant would also develop a technical assistance program to educate local development corporations and banks to the potential uses of SBICs as developmental tools.

SECTION THREE: EXPANDING THE STATE ROLE IN JOB CREATION/SMALL BUSINESS GROWTH

Problem: Capital Formation and Job Creation (p.41)

Recent studies have indicated that there is a critical shortage of available capital for small and medium sized businesses. Several states, notably Massachusetts, have developed programmatic responses to this capital crisis which provide equity and long term debt capital, technical assistance, equity funds for technology development, and bond financing to job generating small businesses.

Other states have helped foster programs which create "community redevelopment businesses". These partially self-sustaining/not-for-profit businesses collect fees for performing a service which meets a community need. By generating their own program income, these businesses minimize public subsidies as well as meet human needs by weatherizing homes, producing food, and rehabilitating housing. Community businesses have been formed in such fields as auto repair, housing rehabilitation, and energy conservation.

Recommendations: (p. 46)

The Committee has concluded that a great deal more could be done on the state level to provide capital to small businesses and to encourage the development of community development enterprises. The State of Illinois should establish a fully staffed Job Creation/Capital Formation Task Force to assist new and existing job generating small businesses. Modelled after a similar group in Massachusetts, the Task Force would prepare a legislative package of capital formation projects for Illinois and submit them to the Governor and State Legislature for support. It would also make recommendations for increased state support of community redevelopment businesses, such as expanded state start-up funding and technical assistance.

SECTION FOUR: PUBLIC INCENTIVES FOR SMALL BUSINESSES TO HIRE THE DISADVANTAGED

Problem: Targeted Jobs Tax Credit (p. 50)

The Targeted Jobs Tax Credit Program, which provides a tax credit to businesses that hire the disadvantaged, is an integral component to the Carter Administration's private sector employment program. Unfortunately, TJTC has thus far been a disappointment in Illinois. TJTC workers are often placed in temporary, low paying jobs, and most participating employers claim the credit for workers they already have on the payroll. The program is all but ignored by Illinois Prime sponsors and manpower agencies. Finally, little staff support is offered by the Illinois Jobs Service in marketing the program. As a result of these problems, a potentially significant tool in assisting job development for the structurally unemployed is being underutilized.

Recommendations: (p. 52)

The Committee recommends that the Chicago Private Industry Council and the Mayor's Office of Employment and Training hire a full-time TJTC Coordinator to inform,

train, and provide administrative support to area manpower agencies to increase their awareness and use of TJTC.

Problem: Private Sector Initiatives Program (CETA VII) (p. 53)

PSIP is a key element in the federal private sector employment strategy. $400 million has already been budgeted nationally to establish Private Industry Councils, composed of area businessmen, to get the private sector involved in employment and training activities for the disadvantaged. Despite the program flexibility of CETA VII, recent changes in the CETA regulations have made it more difficult for Chicago manpower agencies to find jobs for disadvantaged workers in the private sector.

CETA eligible workers are from different economic backgrounds than before the federal regulations changed, and private employers are less likely to hire them regardless of the subsidy. New approaches need to be developed to better meet the job readiness needs of the new CETA applicant. The Committee discovered three interrelated problems with Chicago's CETA Private Sector VII and IIB programs:

- need for job readiness and counseling
- improving marketing to private employers
- need to develop CETA VII and IIB programs directed at youth

Recommendations (p. 55)

The Committee recommends that the current CETA VII job readiness program be expanded to include the 1300 CETA IIB enrollees. In addition, we suggest the post placement counseling staff, serving the 2600 CETA VII and IIB enrollees, be expanded from seven to a more reasonable number, at least double current levels.

The marketing effort of the Private Industry Council and the Chicago Alliance of Business to develop more jobs for disadvantaged workers should also be improved. One way this could be done would be to initiate a pilot program with a business/industrial council to develop CETA slots among member firms. Finally, CABET and the PIC should develop specialized job training efforts on the neighborhood level which are targeted at the unique job needs of disadvantaged youth.

Problem: Placement and Retention Contracts (p. 59)

The major Chicago effort to find permanent jobs for CETA eligible clients is the P.A.R. program which reimburses manpower agencies only if they place clients in private sector jobs. Unfortunately, after the change in CETA regulations, the typical P.A.R. client is now economically disadvantaged, less likely to be job ready, and harder to place.

Recommendations (p. 60)

To remedy this problem, the Committee recommends that the Mayor's Office of Employment and Training fund a job readiness and follow-up counseling program to assist P.A.R. agencies to place the hard-to-employ.

INTRODUCTION

The creation of new jobs to employ the structurally unemployed is perhaps the greatest challenge the nation faces in the 1980's. Repeatedly, members of the Jobs Study Committee heard the complaint that there are not enough jobs in our cities to provide work for the millions of unemployed who need them. The social impact of this fact is staggering. Without access to jobs, workers become transfer payment dependent, and turn into unproductive consumers rather than producers of society's resources. This, in turn, leads to crime, vandalism, and social problems.

The Jobs Study Committee began its investigation into urban employment to find ways of reducing the astronomically high rates of youth unemployment. However, over the course of its year long investigation, it has concluded that the problem of youth unemployment can only be dealt with if there are enough neighborhood full and part-time jobs to provide youth with private, unsubsidized employment.

This is not a youth employment study in the conventional sense. It does not describe new, pilot programs for addressing youth educational deficiences, problems of crime, vocational education, and specialized training programs. Rather, it attempts to address an even more fundamental problem - the creation of jobs accessible to youth in their urban neighborhoods. While youth education and training is an essential element of any employment effort, there must be jobs available for these work ready youth once their training is complete.

For these reasons, the Jobs Committee's work concentrated on methods to create jobs in urban neighborhoods. In particular, it reviewed methods to assist the expansion of small businesses - the major source of most of America's new jobs in the last decade. Public incentives to help these community businesses to grow and prosper not only fill the "job gap" for the unemployed in the cities, but also anchor the neighborhood by strengthening the community commercial and industrial base.

The Committee examined four areas of job creation and made reccomendations for improving job output in each:

- Improve Chicago's small commercial and industrial revitalization program
- Target public capital to small business: linked deposits, pension funds, small business investment companies
- Encourage the development of a state strategy for small business capital formation and job creation
- Improve the performance of Chicago's private sector manpower effort in order to match disadvantaged workers with private sector jobs.

Each of these recommendations has an impact either on the availability of jobs or the quality life in urban neighborhoods. For example, increased investment of pension monies in Chicago small businesses will increase job opportunities, while commercial revitalization programs have their most significant impact on neighborhood development.

These suggestions do not by themselves come close to solving the problems of joblessness or neighborhood deterioration, but they are incremental approaches to the key economic and manpower problems that confront our urban areas.

THE YOUTH EMPLOYMENT PROBLEM: A CHICAGO OVERVIEW

Youth unemployment is not a new phenomenon. It has been created over the last thirty years by a variety of economic, demographic and social factors. Without question, its most dramatic effects have been on the black and hispanic populations of urban areas. Despite initiatives by the Carter Administration targeted at employing minority youth, the gap between white and minority unemployment levels continues to widen and black youth are nearly three times as likely as whites to be unemployed. While the unemployment rate for white teenagers has remained constant, the rate for black teenagers has doubled.

The Widening Gap -- Nationally 1 /

	Black Unemployed 16-19 years old	White Unemployed 16-19 years old
1954	16.5%	12.1%
March, 1979	35.5%	13.6%

The minority youth employment gap in Chicago appears to be at least equal to the national level. 1979 Department of Labor statistics for Chicago demonstrate that unemployment rates for minority youth are more than double those of whites of all age levels.

Chicago Youth Unemployment Rates 2 /

	16-19 years	20-24 years
White Youth	17.3%	8%
Minority Youth	40.2%	25.5%

Many experts claim these figures understate the problem since they do not include the "discouraged worker, who quits looking for work, and high school dropouts.

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1 / Herbers, John, "Changes in Society Holding Black Youth in Jobless Web', New York Times, March, 1979

2 / O'Shea, James, "Jobless Youth Find Even First Rung Hard to Reach", Chicago Tribune, June 14, 1980

The National Urban League estimates that a more accurate picture of the jobless rate for young non-whites would be 60%. 3/ When ranking cities with the highest rates of youth unemployment, a recent Deaprtment of Labor Report ranked Chicago #1 above such cities as Cleveland, Detroit, and Neward. 4 /

The picture of Chicago's youth employment that emerges from this data is even more disturbing when it is understood that many youth are from disadvantaged families and they often have little or no contact with the world of work. 5 / Only one in six families in poverty include a full time, year round worker. As a result, disadvantaged youth are raised with little conception of the essentials of work, such as getting to work on time, dealing with a supervisor, and the importance of skill training. In Chicago, 40% of the city's youth were classified as economically disadvantaged and many have only a tenuous connection with private sector employment. 6 / As many as 55% in Chicago leave school before attaining basic literacy and marketable skills, and others face language barriers.

The problems created by the inadequate work experience of many youth have been made worse by recent economic and population trends in the 1970s. While the overall Chicago population has declined (between 1960-1980, Chicago lost 14% of its total population), the Chicago youth population has significantly increased. The total youth population (16-21 years) grew 50% from 1960-1970 and another 50% since 1970. 8 /

At the same time that the city's youth population has soared, the city's employment base has changed substantially. Since 1970, the city's job base and labor force declined by 200,000 and the rate of decline has been most rapid in manufacturing and retail jobs. Since 1970, Chicago has lost nearly one-third of its manufacturing jobs.

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3 / This figure may not be totally accurate for youth because they are less likely to be "discouraged from seeking employment than older workers". Also see: Statistics compiled by the Mayor's Office of Employment and Training in Spring, 1979 which place the number of unemployed youth (16 - 21 years) in Chicago at 73,723 or 34% of a total population of 214,798. These statistics (which are based on census data of limited local relevance) also estimate that the Chicago white youth unemployment rate is 22% (28,324), while the rate for blacks is 53% (45,403).

4 / Department of Labor, Employment and Training Report, 1C. 32,April,1979, p.583.

5 / Steve Askin, Chicago Reporter, February, 1980, p. 4.

6 / "Notes on Youth Employment - A Chicago Perspective", The Vice President's Task Force on Youth Unemployment by The Mayor's Office of Employment and Training, August 20, 1979, p. 3.

7 / Chicago Reporter, May, 1980 (The Board of Education has disputed the accuracy ot this statistic).

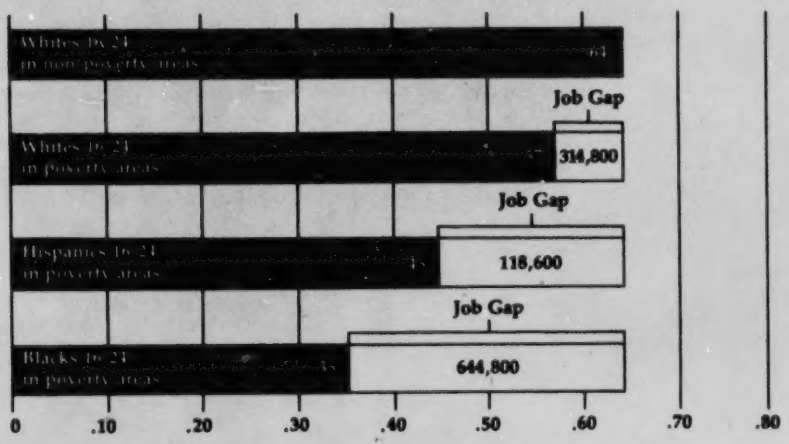
8 / Same as above, p. 1.

These trends are significant because the areas of greatest employment decline (retailing and manufacturing) are the areas where most young adults have traditionally found employment. In 1970, 40% of teenagers (16 - 19) worked in retailing and 20% in manufacturing. Young adults (20 - 24) worked mainly in manufacturing (30%) and retailing (20%). In other words, the youth job market is dominated by the activities that are currenily experiencing the most rapid decline. 9 /

To put it simply, there are not enough entry level jobs for Chicago youth, especially in minority neighborhoods. The areas where manufacturing and retailing jobs have experienced the most dramatic decline are the same areas with the highest increases in youth population - the predominantly black South and West sides of the city. Since teenagers are forced to rely heavily on neighborhood jobs inside their community, minority youth face greater employment barriers as the economic base of their neighborhoods declines. According to the year-end report of the Illinois Bureau of Employment Security, it had over 114,000 applicants for the 11,000 jobs on file and most of these positions required special skills or work readiness that the average unemployed youth does not possess. 10 /

The Job Gap for Poor Youth
1978

11 /



Source: BLS and Census data

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9 / Chicago Tribune, June 14, 1980. Over the last ten years, job opportunities fell an average of 15% on the South side; 27.7% on the West side; and only 8% on the Northwest side.

10 / Chicago Reporter, February, 1980

11 / Vice President's Commission on Youth Unemployment, 1980, Interim Report.

A viable solution to the youth employment problem in Chicago neighborhoods will only be achieved when the number of entry level neighborhood jobs is increased and the youth "job gap" is eliminated. Public sector programs are a step in the right direction but they do not have the financial resources to offer any lasting solution to the problem. The Mayor's Summer Youth Employment Program offers approximately 39,000 teenagers summer jobs. Unfortunately, they last only two months and fail to address the needs of older youth for permanent employment. The Comprehensive Employment and Training Act (CETA) Public Service Employment Program provides 7,000 jobs for cyclically unemployed, while over 124,000 Chicagoans are eligible for these positions.

Understanding this, the Committee has concluded that the "job gap" for youth in Chicago neighborhoods can be reduced by expansion of private businesses within the city. In particular, efforts must be made to stimulate the growth of small businesses, especially in the industrial and service sectors, since these businesses are the source of the lion's share of the new jobs created during the last decade.

In deciding to study "job creation" through small business expansion, the Committee recognizes that merely strengthening a neighborhood business does not ensure that it will hire youth to fill the new jobs it has created. These businesses will be reluctant to hire teenage youth (16-19) because of their inadequate job skills. Moreover, targeting incentives to help businesses in distressed neighborhoods with high levels of unemployed youth is a difficult, if not impossible, task since the markets in these communities often will not support new business activity. On the other hand, unless the public sector begins to study and develop methods to stimulate neighborhood business activity, the job gap for unemployed youth will continue to increase. The Committee has concluded that a rational approach to "job creation" for youth, especially older youth (20-24) is to focus on strategies to assist the expansion of job generating small businesses.

SMALL BUSINESS: KEY TO JOB CREATION AND NEIGHBORHOOD DEVELOPMENT 12 /

Small businesses have a significant, and possibly a determinative, impact on both neighborhood development and job creation. 55% of all employment in the United States is generated in the small business sector. A recent National Science Foundation study concluded that small businesses have been twenty-four times as creative in research and development as larger companies. Clearly, small business is an essential element in making the economy work.

Small businesses, especially those located in commercial shopping districts, are also an essential component of viable neighborhoods. Along with the condition of the housing stock and the quality of education, the condition of the neighborhood shopping strip has a significant impact on the quality of neighborhood life.

Two types of small businesses are dealt with in this report - "emerging" high growth firms and "ma and pa" retail stores. Each has different potentials for job creation and neighborhood development.

"Emerging" Firms and Job Creation

An emerging business is a firm that manufactures goods and services primarily for export to the surrounding urban markets. These firms are young (four years or less), service oriented (80% in trade or service), and often utilize high technology. They are constantly seeking start-up and long term capital for expansion.

Surprisingly, the real job generators of most new jobs in our society are these young, small "emerging" service firms - firms seldom dealt with by government policy at any level. A recent MIT study of over 5-6 million American businesses concluded that almost two-thirds of new jobs generated between 1969-1976 were developed by firms with twenty or fewer employees. Larger, more established firms contribute less than 3% of the new jobs in all regions of the country. 13 /

Research also shows that these small firms,contrary to popular mythology, are very profitable. 14 / From 1958-1978, all industrial firms with less than $1 million

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12 / For purposes of this report, the Committee defined small businesses as those with under 250 employees.It has made no attempt to define small business by industry type.

13 / David Birch, The Job Generation Process, MIT Program on Neighborhood and Regional Change, 1979.

14 / Daniels,Belden and Kieschnick,Michael, Theory and Practice in the Design of Development Finance Innovations, Council of State Planning Agencies, November 9, 1977, p.81.

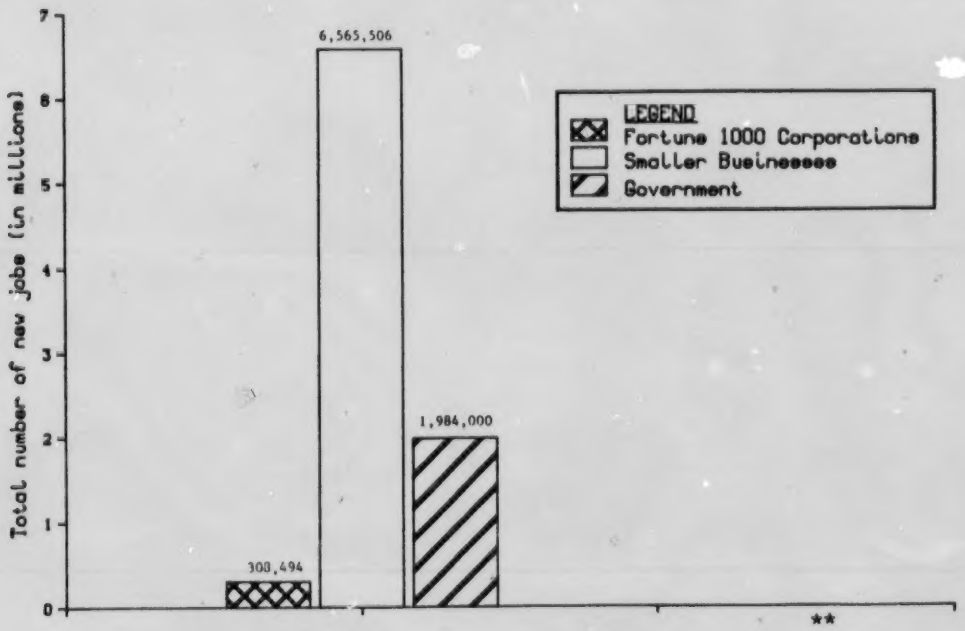
in assets were as profitable as all multi-national firms with over $1 billion in assets. As a class, these smaller firms produced a 16% return on investment which is significantly higher than the 12.5% profit of the Fortune 500 firms during the same period.

Nonetheless, small business is currently in a tremendous financial squeeze. In 1948, the one hundred largest manufacturing firms accounted for 44% of manufacturing assets. However, in 1972, as a result of business acquisitions, this percentage has risen to 66%. The concentration of capital assets in the major, international capital markets has tended to sharply limit capital availability for "emerging" firms. Most of the major institutional investors will not look at firms which are smaller than the threshold of $100 - $200 million in sales or assets.

In the private market,commercial banks are not filling this capital gap. Not only are banks legally prohibited from providing equity capital, but the debt they offer to small firms is characteristically short term (2-5 years). Growing firms need longer term debt and equity financing for expansion. Compounding this problem is the fact that insurance companies and venture capital firms generally seek well established, larger firms for their investments.

The growth and job creation potential of small, job generating businesses have been inhibited by this"capital gap".

WHO CREATED NEW JOBS
1970-76



** Source: Fortune Magazine, U.S. Department of Commerce

Commercial Strip Businesses and Neighborhood Development

A more prevalent type of small business is the traditional "ma and pa" retail store which is frequently situated in neighborhood shopping districts. The job creation potential of the commercial strip retail firm is much more limited than the service/industrial firms described in the above research. Loans to neighborhood stores do not generate many jobs since they are often utilized for facade rehabilitation rather than for store expansion. On the other hand, these same small retail outlets serve as an essential component of a viable neighborhood. A retail strip that is dotted with vacant and abandoned storefronts is not only a blight on the community, but reduces the number of job opportunities for neighborhood residents.

Upgrading the commercial strip may have a positive effect on the surrounding residential community by encouraging homeowners to rehabilitate their own units. Part-time jobs for youth and housewives can be developed through improvements in commercial areas. While revitalization of a city's commercial strip is certainly no magic formula for neighborhood revitalization, it is an integral element of an effective community development strategy.

The remaining sections of this report present public policy recommendations which facilitate the expansion of both of these types of businesses. They address the needs of job generating "emerging" firms for debt and equity financing. They present methods to upgrade businesses located on commercial strips by meeting their physical development and financial requirements.

The Committee has concluded that the benefits of job creation and neighborhood development should be encouraged by appropriate policy and program modifications.

THE COMMITTEE'S APPROACH

During its year long study, the Committee focused its work on examining methods to create jobs for urban youth through small business expansion. The Committee concluded that small business growth leads to a variety of other benefits which are just as significant as job creation. For example, viable commercial strip businesses make essential contributions to healthy neighborhoods. Community enterprises, such as energy conservation businesses, meet crucial neighborhood needs even though they may only create a limited number of jobs.

On the other hand, small business job creation should not be viewed as any more than a partial solution to the youth employment problem. Pre-employment job readiness, skills training, and basic education for youth are vital if new small business jobs are to be filled by disadvantaged youth. In addition, a viable business community alone will not reverse the trends of neighborhood decline. Economic development programs must complement efforts to meet the housing, health care, and human service needs of each community.

Even recognizing these problems with a private sector focus, the Committee felt that small business job creation was too significant for it to overlook. In the course of a year, a group of thirty volunteers from the public and private sectors listened to approximately fifty economic/manpower experts with a diverse set of views and backgrounds. The speakers represented private financial institutions, local economic development groups, city and federal government agencies, universities, manpower groups, and the small business community. After more than a hundred hours of listening, reviewing and analyzing this expert testimony, the Committee formulated recommendations for policy and program changes in four broad economic and job areas: These include:

- Improving the City of Chicago's neighborhood economic development program: Using public monies to leverage commercial strip development and small industrial growth.
- Targeting public capital to help job creating small businesses: Linked deposits, public pension funds, small business investment companies.
- Encourage the development of a state strategy for small business capital formation and job creation
- Matching disadvantaged workers with private sector jobs Improving the performance of CETA VII, TJTC, and P.A.R. in Chicago.

While these four sets of recommendations are directed at different private and public sector actors, they are each characterized by certain common elements. Each recommendation is calculated to use public funds to leverage private sector support for community economic development. Each has an impact on neighborhood development and small business job creation. Each requires a restructuring of certain public policy priorities at very little additional cost to government. Simply put, the bottom line for each of these sets of recommendations is more jobs and stronger neighborhoods.

As opportunities arose, the Committee released several of these recommendations before this report was published. (See Sections I and IV, pp. 11, 53). In some cases they have already been implemented.

SECTION ONE: IMPROVING CHICAGO'S NEIGHBORHOOD ECONOMIC DEVELOPMENT EFFORT

Small businesses are as crucial to Chicago's economic condition as they are to the nation as a whole. Of the approximately 130,000 businesses in the Chicago six county area, only 1,500 employ more than 250 workers. Moreover, a study by the Economic Research Division of the First National Bank reinforced national data with the conclusion that small business expansion is the primary source of new jobs in the Chicago area. 15 / The employment gains in the Cook County area were primarily due to the birth and expansion of new, often small firms. Between 1969-1977, 78% of area job gains were a result of new firm growth, while only 1% of Chicago regional employment increase was due to in-migration of new firms.

The picture of the Chicago economy that emerges from this data suggests that public and private incentives should be targeted to stimulate the continued expansion of these small, job-generating establishments. A much more troubling issue is how these small business assistance efforts can be effectively developed and implemented. Nationally, of the 500,000 new businesses that start up each year, only 50% last two years, and only 25% survive more than five years. With these high attrition rates of small, volatile, young firms, it is extremely difficult for government agencies and institutional investors, like banks and pension funds, to find the economic and job generating winner that is buried in the mass of failures.

The City of Chicago has the financial and institutional capacity to leverage private investment dollars and jobs to distressed communities by providing a variety of public incentives to small businesses, community economic development groups, and institutional lenders. Most federal urban development dollars are spent at the discretion of the city administration within certain geographic and categorical limitations. As a result, the City of Chicago in 1980 will spend approximately $128 million in Community Development Block Grant Dollars (CDBG, Year VI) and $130 million in Comprehensive Employment and Training Act (CETA)funds to achieve a broad array of social and economic goals.

This section of the report provides a brief overview of the current city neighborhood economic development program; why it should examine the new programmatic directions; and what could be done to improve the city's leveraging of private dollars for neighborhood business growth. The Committee's recommendations concern two economic categories: A) Improving the Chicago Commercial Revitalization Effort; and B) Improving the Chicago Neighborhood Industrial Revitalization Program.

A. IMPROVING CHICAGO'S COMMERCIAL REVITALIZATION PROGRAMS

Facts:

The retail base of Chicago has been declining for the last two decades. Since 1959 there has been a shift in the retail sales emphasis from the city and central business district to the suburban portion of the metropolitan area. In 1958, 63% of metropolitan retail sales were in the city and 37% were in the suburbs. By 1977, this percentage had been reversed with 65% of retail sales in the suburbs and 35% in the city. The number of retail outlets in Chicago has also declined. In 1970, over

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15 / The Movement of Firms in the Chicago Area, First National Bank of Chicago, Business and Economic Resource Division, August, 1978.

30,000 retailers, many of them small, were located in Chicago as compared to 19,818 in the suburbs. By 1978, the number of city retail outlets had decreased by 4,500 while the suburban share had jumped to over 25,000. 16 /

Even more significant is the effect that this retail decline has had on the Chicago retail employment base. In 1967, 183,641 workers were engaged in retail trades in Chicago, but by 1977 this decreased by 11% to 162,919. During the same time period, the number of suburban retail workers increased by 134% from 164,977 to 387,118. 17 /

These trends of retail decline have had the most acute effects on the neighborhood shopping strips, once the anchors of Chicago neighborhoods. An analysis of the Census Bureau's data on Chicago's major retail centers points out that in actual sales dollars many of these shopping strips are in substantial decline. 18 / Between 1967 and 1977, twelve Chicago retail strips that once met the Census Bureau's definition of "major retail centers" were dropped from this classification. These strips either no longer had twenty-five stores or had lost a large general merchandise store during that time. 19 /

Especially hard hit have been the strips in minority neighborhoods where income levels may be lower. While the total number of establishments in the white shopping districts fell from 751 to 748 (0.4%), the businesses in the Spanish areas fell from 647 - 598 (16%),and in the black group from 795 to 579 (27.2%). As a result, many once vibrant Chicago retail strips are dotted with vacant and abandoned storefronts which are not only eyesores but also result in the deterioration of the surrounding residential community.

The decline of the Chicago neighborhood retail shopping strip is the result of a variety of factors. Merchants need affordable financing, more efficient management techniques, additional parking facilities, and better product variety. Small businessmen are often the first victims of neighborhood crime. But perhaps most important is the fact that local commercial strip businessmen have not attracted the shoppers' dollars from their surrounding neighborhood market areas.

Recent market studies in Baltimore and Philadelphia indicate that at least 70% of the income of urban residents is spent outside of their neighborhood shopping strips. A study in one primarily black,moderate income Chicago neighborhood demonstrated that significantly more than one-half of resident purchases were made outside the local community shopping areas. 20 /

If a portion of these consumer dollars, for convenience and shoppers goods, could be re-attracted to neighborhood shopping strips, not only would the individual businesses prosper but the revitalized commercial area would improve the economic base of the entire neighborhood. To be sure, this is not an easy task. Shoppers claim

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16 / "City Short on Economic Zip", Chicago Sun Times, Editorial, January 23, 1980,p.41

17 / Survey of Major Retail Centers, U. S. Department of Commerce, 1977

18 / Neighborhood Shopping Facilities - City of Chicago, Continental Bank, Area Development Division, April, 1979

19 / For example, the Englewood Shopping Mall dropped from the list of Major Retail Centers when its general merchandise store, Sears, moved out. It must also be noted that the definition of a Major Center has changed from 1967 to present.

20 / Haralson, William, Evaluation of Retail Potential in Chicago's South Shore Neighborhood, South Shore Commission, 1975.

that the selection of products in their commercial strips is inferior in variety and quality to those of the outlying shopping malls. Potential customers are discouraged by the commercial area's unattractive signs, deteriorating storefronts, poorly maintained streets and high crime rates.

Several communities, both in Chicago and nationally, have achieved notable success in revitalizing their declining business strips, reducing the vacancy rates and creating part-time job opportunities for neighborhood residents. (See Appendix #3). Unfortunately, the City of Chicago commercial revitalization effort has yet to provide a full range of activities to revitalize neighborhood commercial strips.

Recommendations: City of Chicago Commercial Revitalization Program

Until January 1, 1980, the City of Chicago's commercial revitalization effort was a piecemeal program, administered by two separate city departments with little, if any, communication between them. One city unit provided funds for physical public improvements, while another offered software commercial revitalization assistance in the form of financing and promotions.

Local economic development groups informed the Committee that one of these city units would fund a commercial revitalization project in a neighborhood without any knowledge of the activities of the other unit in that area. As a result, some Chicago merchants received physical improvement monies for new trees and sidewalks, but still had no access to long term financing or promotional assistance. Clearly, the city's approach did not provide the commercial strips it had targeted for revitalization with the diversity of tools so necessary for effective redevelopment.

To address this problem, the Jobs Study Committee formed a subcommittee in September, 1979 to develop immediate recommendations for improving the coordination of these two units. On October 18, 1979, after several weeks of discussion, the subcommittee recommended the consolidation of these two commercial revitalization units into a new Neighborhood Business Revitalization Unit. With a total budget of nearly $10 million from Community Development funds, the new unit could provide the entire range of services to each commercial strip including: planning, physical improvements, technical assistance, and subcontracting projects to local groups.

On November 1, 1979, Mayor Byrne announced the consolidation of the two city commercial units into a new Economic Development and Planning Unit, as a result of a study by City Hall advisors and TRUST's recommendation of six weeks earlier. This new unit is now responsible for all of Chicago's commercial revitalization programs and it is under the administrative direction of the Department of Planning.

The consolidation of Chicago's commercial revitalization effort is an important first step. However, as of January, 1980, this Unit still did not offer certain programs which are necessary elements of successful commercial revitalization. After the creation of the new Economic Development Unit, the Committee heard from a variety of experts about the public and private incentives which constitute effective retail revitalization. The Committee found that many of these programs were not offered by either city unit before or after the consolidation. For example, as of January, 1980, Chicago did not offer:

- A technical assistance program for local groups which offers professional help in marketing, architecture, and attracting retail businesses.
- A facade rehabilitation program for local merchants.
- A program to provide minimum equity injections and long term debt financing to capital starved merchants.
- A fund to assist merchants in long range planning for economic development activities.
- Extensive use of such innovative financing techniques as special service areas.

In order to fill this programmatic gap, the Committee reviewed the information it had collected and developed a series of recommendations for improving Chicago's Commercial revitalization effort. In February, 1980, the Committee presented these recommendations to the City Department of Planning and the Economic Planning and Development Unit for review.

At the time of this printing, it appears that many of the recommendations of TRUST's commercial revitalization plan have been incorporated into the City of Chicago's development initiatives for 1980-1981. As a result of the efforts of TRUST, the Chicago Association of Neighborhood Development Organizations, the National Development Council, and in cooperation with a responsive Planning Department and city administration, Chicago has announced the creation of a merchant facade rebate program (Recommendation 5, p. 17); a bank participation plan (Recommendation 2, p. 21); and matching grants for local groups (Recommendation 1, p. 14).

The Committee recommendations are as follows:

1. The new City Unit should increase its selective funding of staff and operating costs of local organizations involved in commercial revitalization. Information presented to the Committee indicates that an effective commercial revitalization program requires a full time Project Director on the street from the beginning of the project. Unfortunately, one estimate indicates that the city provides funds to only a half dozen local groups citywide to hire local economic development professionals.

The Director would organize strip advertising and special events; strip maintenance and security; and business development activities, such as new business recruitment, store leasing and market research. In addition,the Project Director would organize the local merchants, obtain private sector involvement, and serve as ombudsman to ensure that city and federal officials carry out their commitments to local economic development.

The Committee recommends that the new City Economic Development Unit expand its staff and administrative cost funding to local Economic Development Organizations. The city should provide 2 to 1 city/private matching grants up to $25,000 to cover local organization costs. This means that a local group able to raise $12,500 would be matched by $25,000 in city monies. These monies would be sufficient to fund one full time Project Director and Assistant, as well as expenses such as rent, phone, printing, etc. Each neighborhood economic group funded under this matching program would be required to develop a workable set of project objectives and activities, raise the one-third match, and make assurances to the city that it has competent staff.

The City Economic Unit should also expand its funding to economic organizations just starting up which are unable to provide a match. These groups should be chosen based on area demographic data, sophistication of existing merchant's association, and potential for growth.

2. The Chicago Economic Development Unit should develop a standard basis for selecting revitalization areas for additional funding. Rather than selecting neighborhoods for public improvements on a non-systematic basis, areas should be selected based on several sets of factors including demography, professionalism of the neighborhood group, and existence of other development activities in the community.

Before allocating scarce resources, the Unit should collect data on the target area's demographic characteristics, including income levels, growth patterns, and

commercial needs such as vacancies and condition of streets and sidewalks. The Unit should also examine a neighborhood's organizational capacity, in particular the history of the local business group, their influence in the community, and the track record of their staff.

Other city activities, such as housing, health care, and industrial development, should be targeted to those neighborhoods where commercial revitalization programs are initiated and vice versa in order to have the maximum impact on neighborhood development.

The city cannot assist every worthwhile development effort, so it is compelled to make some difficult economic and political decisions as to where it should allocate its commercial development monies. While these factors should not be viewed as an "inflexible" set of criteria, the committee feels that they do provide some rational guidance for establishing city priorities in selecting commercial districts for revitalization.

3. The new City Unit should provide matching funds to neighborhood economic development groups to enable them to develop a local planning capacity. Community business development efforts require an economic plan both to provide direction for development and to market the area's potential to the private sector. A plan for a revitalized retail strip demands the consideration of parking availability, adequate lighting, overall design standards of buildings, signs, the aesthetic appearance of the area, and public improvements, such as trees, benches, and streetscape improvements. The local economic development plan would include a long range plan for the services required for commercial development, financing, public improvements, project administration, and potential use of alternative financing sources, such as special service areas.

The Committee recommends that the City Economic Development Unit make economic planning funds available to selected local groups to develop these plans on a matching grant basis. If a local group raises $10,000 in funds from private sources for a local economic plan, the city should match it with $20,000 on a two to one matching formula. Most Chicago economic development groups spend their time handling day to day program operations and have little, if any, time to develop community economic plans. The city matching grant would encourage those groups with the capacity for raising private funding and reward them for obtaining merchant and private sector involvement. 21 /

4. The new Economic Development Unit should create a Technical Assistance "Resource Bank" to provide local economic organizations with the specialized resources required to revitalize business/industrial districts. Neighborhood economic development groups seldom have access to the specialized skills which are necessary to market lots to potential tenants, promote the area, improve building facades, or package loans. In 1979 the State of Illinois formed a unit to provide these services. Unfortunately, since it is intended to serve the entire Cook County area, its impact on Chicago groups is limited.

The Committee recommends that the city develop a "Resource Bank" to provide technical services to neighborhood economic revitalization groups. This unit would

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21 / While the city has set up a $100,000 matching grant fund for overall community planning, this is inadequate to deal with the particular needs of local economic groups. First, a fund of $100,000 is insufficient to provide the planning resources required by Chicago's economic groups; second, a special fund for economic planning is seen as essential for local commercial growth; and finally, the Committee felt that the 1:1 match requirement of the current city fund was too stringent to encourage involvement by Chicago merchant groups and economic development organizations.

coordinate its activities with those of the State Department of Commerce and Community Affairs Technical Assistance Unit, the University of Illinois Center for Urban Economic Development,and the National Development Council.

Existing city economic development staff could be retrained to fill some of the positions in the resource bank, such as Resource Coordinator. It is important, however,that trained professionals are hired to fill tne more technical of these positions. The Committee recommends that the City Unit negotiate contracts with several private consultants and make their services available to local groups as needed. The services that should be provided include:

- Architectural Assistance: Plans for facade renovation,conversion of excess retail property to residential use, or new store construction should be provided with the assistance of the City Architectural Division or a consultant on call to the city. This would assist the local merchants in developing physical development plans.

- Professional Advertising Assistance: The Resource Bank should include a professional advertising consultant to assist the strip to develop promotional programs and market stores to the adjacent residential community. The consultant should also have skills in site marketing to encourage tenant location in vacancies. The consultant would develop local strip marketing plans to encourage neighborhood residents to "shop locally."

- Retail Attraction Specialists: The city presently has no permanent staff whose role it is to attract job generating commercial outlets,e.g.,OSCO,Dominicks, into urban locations. As a result, these enterprises are frequently unaware of the increasing market potential of certain Chicago neighborhoods and take their jobs to suburban areas. (An OSCO with $10 million in sales generates approximately one hundred jobs). The City Economic Development Unit should retain professional retail attraction assistance.

- Market Analysts: Testimony presented before the committee noted that local economic development organizations have no access to area demand market studies and, as a result, groups are unable to prepare area development plans. Market studies are needed to develop plans consistent with neighborhood assets and liabilities for use as a tool for "selling"the strip to potential tenants. The city should retain professional market analysts to assist local groups in selected areas to prepare such studies.

- Resource Coordinator: Local organizations have repeatedly told the TRUST Committee that many resources,such as foundation grants and aid from professional groups, are underutilized because local groups do not know how to apply for them. Local organizations need to be trained in fund raising techniques for foundation and government grants and assisted in applying for them. This would enable groups to develop fund raising skills to continue program operations without utilizing scarce CDBG funds.

The Resource Coordinator would also develop programs with the private sector, i.e., Chicago United, Trade Associations (Certified Public Accounts) and Big Eight Accounting firms to assist local businesses. In-kind internships from businesses and university service programs could also be developed by the Resource Coordinator.

Coordination could be encouraged between local business groups and existing CETA manpower programs directed at the private sector by organizing a series of seminars with local businesses explaining how they could utilize the on-the-job training and targeted jobs tax credits programs. The Committee feels that these private sector resources would become more influential if the city would give them leadership and direction.

5. The city should add new financing tools to its commercial revitalization effort to leverage additional private sector investments in Chicago communities. A major objective of public commercial development expenditures is to leverage additional private dollars for targeted business districts. The Committee feels that the city's ability to encourage the flow of new private investments into commercial districts could be facilitated if policy makers made the following programmatic modifications:

- Expand the Loan Packaging Staff: The Neighborhood Planning Unit recently hired two loan packagers to arrange loans through local development organizations. In a one year period, these two professionals assisted local groups in the packaging of over forty Small Business Administration loans for over $1.8 million. Two loan packagers to handle the volume of loans through local economic organizations is insufficient. Staff should be increased to four and then assigned to work in the neighborhoods to aggressively seek out loans in conjunction with banks and local development organizations.

- Chicago should adopt a loan/grant facade renovation program to encourage merchants to rehabilitate exterior facades and make sign improvements according to suggested design standards. A facade renovation program, Restore, in Boston has been operational for several years and could serve as the model for the Chicago effort. Restore provides merchants with a 20% rebate (up to $1,000 on a $5,000 project) for facade improvements. The program is targeted to geographically defined business districts so that the architectural impact on the entire strip will be maximized. The Boston city government not only provides a rebate, but also offers participating merchants loan packaging assistance and private architectural help through part-time architectural consultants.

  In Boston, local design review committees, composed of businessmen, community banks, and residents, must approve any rebate application. The design review committee, community banks, and local merchant groups would encourage local merchants to conform to these agreed upon design standards. 22 /

  In Boston, the 1979 Restore budget, which was obtained from Community Development funds, was $500,000. These monies assisted in the rehabilitation of approximately five hundred storefronts in target areas. The average rebate cost was $600 per storefront; architectural cost, $300; loan packaging cost, $100 per storefront. 23 /

  The Committee recommends that Chicago initiate its own neighborhood Restore Program.

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22 / The Committee considered whether to recommend the passage of a mandatory design standard ordinance as tried in Baltimore, Maryland, Hudson, New York, and other cities. Although such an ordinance clearly has the most effective architectural impact (it forces the entire block to adopt uniform design standards), the mechanics of a more limited non-mandatory program, like Restore, would be easier to work out as a first step for Chicago. If a program modeled after Restore proves to be successful in Chicago, the Committee hopes that it would be expanded to include mandatory design requirements in selected areas.

23 / One alternative approach to a rebate,which has been tried in several cities, is to underwrite the interest rate charged to the merchant for the facade improvement with Community Development funds. At a relatively low cost, the city would make a significant impact on neighborhood storefront design and improve the appearance of neighborhood commercial strips.

The City of Chicago should increase the use of special service areas as a tool for local economic development: Special service areas are methods of financing a variety of services and improvements, including sidewalk improvements, lights, trees, and promotional staff. A simple tax is levied on each real and personal property owner within the special service area to finance the improvement. Special service areas have been widely used in Illinois. Through 1978, the technique has been utilized by twenty-one cities and two counties to establish thirty-six special service areas. The Englewood Mall and the State Street Mall both have utilized special service area financing to cover costs.

The use of special service areas has several advantages over other types of commercial development financing. First, they are a method of obtaining mandatory merchant involvement and financing for retail area improvements. Unless 51% of the merchants object, and this has never occurred, the costs for improvements will be reflected in the property tax bills of each merchant in the area. Second, cities can utilize special service areas to finance commercial revitalization staff to promote their shopping district to neighborhood residents.

In Oak Park, for example, Special Service Area #1 generated approximately $150,000 annually to finance the maintenance of the Oak Park Mall and to pay for advertising and promotional activities to attract new shoppers. Special service area funds can be used in conjunction with other financing tools, such as Community Development Block Grants, and Small Business Administration loans. Special service area funds could also be a mechanism for local merchant groups to raise the required private match to leverage additional city funds for an economic development plan and support staff. (See recommendations 1, 3, pp. 14, 15).

Unfortunately, the potentials of this special service area for revitalization have not been fully realized in the City of Chicago. Most neighborhood economic groups and merchant associations are either unaware that this tool exists or they do not fully understand how it operates. Compounding the problem, it is unclear what areas are currently eligible for special service designation. While the state law is flexible enough to allow most neighborhoods to take advantage of the financing technique, the City of Chicago's enabling ordinance (Commercial Conservation District Ordinance 15.1) restricts the use of the tool to "blighted areas". Many community commercial organizations are reluctant to have the "blighted" label attached to their retail districts,so they do not take advantage of special service areas to finance needed improvements. Currently, neither the city nor the Commercial District Conservation Commission has any staff to promote use of special service areas.

The Committee recommends that the use of special service areas as a revitalization tool be increased. This could be accomplished by taking the following steps:

1) The city should train a staff person in its Commercial Revitalization Unit to provide technical assistance to local development corporations and/or community groups in planning special service area proposals to be presented to the City Council and the Commercial Conservation District Commission.

2) The city should undertake an intensive educational effort to inform community groups of the potential of the special service area program.

3) The Chicago Ordinance should be amended to ensure that active local input through community merchant advisory councils becomes an important part of the formation of special service areas. Currently, there is no requirement that special service areas be created after it has been reviewed by the local

merchants who will be taxed.

4) The City Council should pass an enabling ordinance authorizing the adoption of the less restrictive state law definition of eligible special service areas. By passing this ordinance, the city would broaden the use of special service areas to those neighborhoods that are in need of commercial development but do not wish to label themselves as "blighted". There appears to be no legal roadblock to passing such an enabling ordinance for target commercial areas.

In certain circumstances, the Commercial Revitalization Unit should loan city monies to cover a portion of the 7½% merchant match in the S.B.A. 502 loan program. To participate in the low interest Small Business Administration 502 loan program, a businessman must contribute 7½% of the total loan amount up-front cash. In some cases, a credit worthy business with substantial assets may be able to raise only a portion of this cash match. As a result, the business is ineligible to receive the loan and is unable to expand their facilities and increase employment opportunities.

To avoid this, the Committee recommends that E.D.P. allocate a limited amount of Community Development Monies to cover a portion of this merchant cash match for credit worthy businesses with substantial assets on hand. This aid would only be available for carefully selected business loans and would be repaid to the city over the normal period of the loan.

B. IMPROVING CHICAGO'S NEIGHBORHOOD INDUSTRIAL REVITALIZATION EFFORT

Facts:

While the Committee concentrated much of its research on the City of Chicago's commercial revitalization program, many of the same problems of inadequate financing and services characterize the city's industrial base. While the impact of commercial revitalization activities is most significant in the creation of part-time jobs in retail firms and upgrading the community, the expansion of industrial and service companies has a direct impact on Chicago's permanent employment base. The United States Chamber of Commerce has estimated that every one hundred new industrial jobs created in a neighborhood will spin off sixty-five new service and retail jobs. 24 /

Unfortunately, Chicago, like most midwest and northeast urban centers, has experienced severe losses in its industrial base to both the suburbs and the Sunbelt states. While rates of loss are stabilizing as the Chicago Economic Development Commission continues its efforts to assist business expansion, the number of manufacturing jobs in Chicago fell from 550,000 in 1967 to 375,000 in 1976. In 1975 alone, when the the recession's impact was greatest, Chicago lost 125,000 manufacturing jobs. 25 /

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24 / U.S. Chamber of Commerce, "Future of Small Business in America, April 18, 1978.

25 / 1978 Regional Data Report, Northeastern Illinois Planning Commission, Chicago Tribune, January 25, 1978.

Although data on Chicago small businesses is limited, some information does provide indications of the movement of job generating firms to suburban locations.

ANNUAL AVERAGE NUMBER OF SMALL AND LARGE BUSINESS CUSTOMERS OF COMMONWEALTH EDISON FOR CHICAGO AND SUBURBAN AREAS 1966 and 1975

	No. of Small Commercial & Industrial Customers 1966-1975			No. of Large Industrial Customers 1966-1975		
Location	1966	1975	% Change	1966	1975	% Change
Chicago North	40,092	36,518	- 9%	47	65	+38%
Chicago Central	41,556	31,539	-24%	180	188	+ 4%
Chicago South	39,387	31,882	-19%	78	82	+ 5%
Total City	121,035	99,939	-17%	305	335	+10%
Total Suburban Areas	80,046	102,092	+28%	259	402	+55%

This Commonwealth Edison data demonstrates that the number of small industrial/commercial firms located in Chicago has dropped significantly from 1966-1975 while the suburban share has dramatically increased. The decline noted in the Edison data is even more disturbing since these small industrial/service firms account for the lion's share of the new jobs created in America. Moreover, the loss of jobs resulting from the exodus of companies has negative effects on the quality of life of the urban neighborhoods where they once did business.

Chicago cannot afford to permit the loss of these industrial/service firms to continue. More needs to be done to meet the financing, technical assistance and city service requirements of Chicago firms to encourage them to remain and expand in Chicago's neighborhoods.26 / The Committee's recommendations are one small, but necessary component of an overall city industrial development effort that the city must initiate within the next decade.

Recommendations:

1) The City Economic Development Unit should provide staff and planning assistance to local industrial councils in obtaining long term financing, attracting new firms, and obtaining public infrastructure improvements. Approximately one dozen local industrial councils exist within the Chicago city limits. These councils are consortiums of neighborhood manufacturing firms and they frequently provide assistance to member businesses in the areas of loan packaging, infrastructure planning, and new tenant attraction. Unfortunately, few public dollars are available to finance their staff requirements and operating expenses.

The Committee recommends that a two to one city/private matching grant up to $25,000 be provided to these councils to cover local organization costs. This means that a local industrial group able to raise $12,500 to conduct a workable program

26 / The Committee made no systematic investigation of the work of the Economic Development Commission and makes no attempt to comment on its work. Many of the following programs could be administered by the E.D.C.

would be matched by $25,000 in city monies. This program, similar to the one recommended for commercial groups, would enable the councils to hire a full time Project Director as well as cover such operational costs as rent, phone, and printing.

The Committee also recommends that the proposed matching fund to provide local groups planning assistance (See recommendation 3,p.15) be expanded to offer planning funds to industrial councils. This would enable industrial councils to prepare industrial site plans, proposals for infrastructure improvements, and an area wide development plan for use as an incentive to attract new industrial tenants.

2) The Committee recommends that Chicago initiate a program which provides long term fixed asset financing to businesses seeking loans of $500,000 or less. Another problem facing neighborhood industrial firms in Chicago is the shortage of long term fixed asset debt capital. The three logical sources for small business financing are insurance companies, commercial banks, and savings and loan associations. None of these institutional investors look with favor on long term financing packages to small industries. Insurance companies seldom do any long term financing unless the project is over $1 million. Commercial banks are regulated by the Federal Reserve Board which frowns upon long term portfolios since this reduces the assets available to the bank to cover outstanding liabilities. As a rule, commercial banks restrict their business lending to five year loans. Finally, Savings and Loan Associations are created primarily to provide long term mortgage loans and Federal Home Loan Bank regulations stipulate that they cannot make more than 18-20% of their total loans to businesses. In other words, businesses have no where to go to obtain long term financing.

Unfortunately, a small business cannot afford to construct a new facility or modernize an old one without long term financing from 15-30 years.

Advantages of Long Term Financing
($1,000,000 Loan)

	Short Term Financing (5 yrs.) at 10%	Long Term Financing (20 yrs.) at 10%
Annual Payments	$255,000	$115,900
Annual Constant	25.50%	11.59%

As the above figures show, long term debt financing can make a prohibitively expensive loan affordable for many small businesses. 27 /

The Chicago Economic Development Plan and its innovative federal guarantees deal only with Economic Development Administration loans which are larger than $500,000. A small business wishing to obtain a long term loan for an amount less than $500,000 still has no access to private financing under the Chicago Economic Development Plan.

Baltimore, San Francisco, and eight other cities have all created Bank Participation Plans (BPP) to provide fixed asset long term financing to capital starved small businesses. Private sector banks commit a certain amount to the BPP and the city packages the long term deals so that they are able to receive SBA 7a and 502 L.D.C. 90% guarantees. Rather than setting aside funds up front, each participating bank is required to commit to make a specified amount of long term loans over the course of a year. The banks which originate the loans are then able to sell the

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27 / Figures and background work on this issue were compiled by the National Development Council, Neighborhood Business Revitalization, 1978, pp. 93-97.

90% SBA guaranteed notes on the secondary market at a profit, thereby obtaining an additional incentive to participate in the program. Total costs for the program, which has created a $41 million BPP in Baltimore, would be approximately $50,000 to hire two loan packagers to process loans in order to meet SBA requirements.

Chicago would not only benefit in this program from expanded industrial job opportunities, but also from the additional city revenues as firms grow at in-city locations. For example, a loan packager in Baltimore's Bank Participation Program who arranged $10 million in industrial loans creates approximately one thousand new jobs. The City of Baltimore estimates that this creates approximately 680 additional jobs in non-manufacturing; $10.4 million in personal income; and $5.6 million in additional retail sales. In the first year, these jobs would generate $2.5 million in tax revenues so that after a few years the program would become an unencumbered source of city tax revenues.

The City of Chicago has expressed interest in this program to the Chicago Association of Neighborhood Development Organizations, and the Committee recommends that the city follow through on its formal commitment to create a Bank Participation Plan in Chicago.

In addition, if this program were to be combined with the interest underwriting program described below, it could make low interest, long term debt capital available to expanding small businesses.

3) The Committee recommends that the City of Chicago develop a pilot interest underwriting program to reduce interest rate costs for job generating neighborhood businesses.

With interest rates recently at record levels, the high costs of capital are prohibiting many job creating small businesses from obtaining expansionary financing. Information presented to the Committee from local development corporations indicates that neighborhood businesses are delaying expansionary plans because their profit margins are reduced by escalating loan costs.

The Committee recommends that the city initiate a program, similar to those operational in St. Paul, Baltimore, and New Orleans, which would underwrite a portion of the interest costs of certain credit worthy businesses.

The city has promised to develop an interest underwriting program, and we urge that the Planning Department follow through with its commitment. The program would have the following elements:

a) Approximately $450,000 of Community Development Block Grant (CDBG) monies would be allocated to underwrite the interest costs of businesses referred by SBA chartered local development corporations and neighborhood economic organizations. The businesses selected would have to meet the requirement that they would not be able to profitably take the loan "but for" the subsidy. In addition, businesses selected for the subsidy would be required to have significant job creation potential.

b) The following interest write down formula should be included in the program:

- Upfront payment of 8% of total loan amount to eligible businesses. Discounted for present value, this represents a 2% interest write-down. (Based on 10% interest rate).

- To constitute a meaningful subsidy, the 2% interest rate reduction should be for the entire amount of the loan and not for a portion of it.

- Using this formula, $450,000 in CDBG monies used at 8% upfront payments for ten years of a twenty year loan would leverage approximately $6¼ million in private investment.

The Committee believes this 2% cost writedown would constitute a sufficient incentive to stimulate additional private investments and leverage 12½ private dollars for every one dollar of CDBG funds invested. Moreover, by leveraging $6,250,000 in loans, the program would create an estimated 325 jobs (assuming $20,000 cost per job).

Finally, the program would help strengthen the organizational and business credibility of local development groups who would be the chief referral agent of eligible loan applicants.

4). The Committee recommends that the County Board and Assessor streamline the operations of the current Industrial Tax Incentive Ordinance.

Another frequently discussed approach to attracting industrial firms to Chicago has been the use of tax incentives as a stimulus to new industrial development. In February 1978, Cook County approved an ordinance which reduced the assessed valuation from 40% to 16% in eligible areas for new industrial construction or substantial rehabilitation. This reduced assessed valuation for industrial construction can be a powerful inducement for a developer to build in a Cook County area in need of economic development as opposed to a site in the collar counties.

At the present time, Cook County is the only Illinois county which assesses industrial property at a 40% rate. The other counties assess at a 33% rate or less. During the first ten months of 1979, seventy-eight companies, expanding or building new facilities in Chicago, have applied for the ordinance's reduced assessed valuation, and other Cook County municipalities eligible for the incentive have seen similar interest in the tax break from private firms.

Unfortunately, after two years of operation, the Assessor has not granted this incentive to a single new industry (even though four projects are currently under consideration). 28 / Part of the problem with the current ordinance is that it does not provide for any administrative process to determine if a planned industrial project qualifies for the tax break. Only after the development is complete and the property is reassessed upward can the developer apply to the Assessor for a determination of his eligibility for the tax break. Clearly, this is no incentive for a developer to locate in an area of high unemployment since he is not eligible for the incentive until after the project is completed.

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28 / This reflects a statement by Assessor Thomas Hynes at a Cook County Board Meeting in January, 1980.

To improve the effectiveness of the ordinance, the Committee recommends the following changes in the Assessor's procedures:

- The Assessor should develop specific program guidelines and procedures and make them available to developers in the pre-development phase before project outlays are made.

- The Assessor should report to the Cook County Board on a semi-annual basis.

The Committee also recommends that the County Board amend the industrial ordinance as follows:

- Amend the industrial ordinance so that it establishes a clear definition of what constitutes "substantial rehabilitation", as does the commercial ordinance. Since the current industrial ordinance does not define what constitutes substantial rehabilitation, it is difficult for a firm considering relocation into Cook County to know if its improvements make it eligible for the incentive.

- Amend the industrial ordinance to ensure that tax reductions under the ordinance are not revoked if an area loses its classification as being in need of development. This would assure the industrial developer that the incentive would be granted for a period long enough (thirteen years) for him to make his expansion/relocation economically feasible.

SECTION TWO: TARGETING INVESTMENTS OF PUBLIC CAPITAL TO JOB GENERATING SMALL BUSINESSES: LINKED DEPOSITS, PENSION FUNDS, SMALL BUSINESS INVESTMENT COMPANIES

With public spending for job creation, neighborhood development and economic revitalization less available than in previous decades, new approaches and new sources of funds are required to meet the challenges of the 1980s. In particular, attention needs to be focused on methods to redirect the trillions of dollars of capital to relieve the pressing social and economic problems of our economically depressed communities. While much attention has been provided to methods of influencing capital outflows of commercial banks, savings and loans, and insurance companies, only recently have analysts started to study the use of "public capital" for local economic growth and job creation. The hundreds of billions of dollars of public resources invested by public pension boards and state and local government in time and demand deposits are an untapped resource of capital for more socially productive investments.

The committee is fully aware that its research into public pension funds, "linked" deposits, and small business investment companies is not the only approach for meeting the requirements of small businesses for equity and long term debt capital. A cautious reallocation of portions of these funds must be viewed as only one element in a many-pronged attack on a multi-faceted problem.

This section of the report presents a brief overview of the State of Illinois and City of Chicago processes for allocating their billions of dollars of public investment capital. It also presents recommendations for streamlining these processes in order to assist the expansion of Illinois and Chicago job generating businesses while still protecting the interests of the public depositors.

A. LINKED DEPOSITS

Targeting Public Deposits to Institutions Which Invest in Small Businesses

What Are "Linked Deposits"?

In June, 1975, the total deposits of state and local funds in commercial banks accounted for 8.8% of the total deposits in these institutions. 29 / In recent years, government entities have started to deposit these monies with banks that make loans to certain categories of borrowers that have traditionally experienced inadequate access to credit. By investing these public deposits in banks with a track record of community reinvestment, government policy makers can augment the limited bank funds currently available for such activities as home mortgages, housing rehabilitation, and small business expansion.

Those who support "linking" deposits of public funds in banks with favorable community reinvestment loan portfolios claim it offers several benefits. Not only would targeted deposits be invested in banks that would put these funds to the most socially

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29 / Daniels, Belden and Litvak, Lawrence, Innovations & Development Finance, 1979.

desirable use, but they would also serve as an incentive for banks to alter a portion of their loan portfolio to obtain these public deposits. Moreover, if public deposits were targeted to preferred loan categories such as small businesses, they could generate new jobs, income, and expanded business activity. In other words, a "linked" deposit system may make it possible to promote government economic and social objectives while receiving a reasonable interest return on public deposits.

While quantitative estimates of the impact of linked deposits are difficult at best, several studies have been attempted. A 1968 Ford Foundation study of the Illinois Linked Deposit Plan concluded that shifts of public deposits to "in-state" investments would generate sales tax receipts providing an annual rate of return to the state almost as large as the interest earned on the deposits themselves. 30 / In 1970, the Illinois Treasurer's Office reported that the state linked deposit system generated an additional 2 1/2 dollars tax revenue for each dollar of interest earned. 31 /

The State of Nebraska came to a similar conclusion in 1976 after it released a study which analyzed alternate ways to manage the state's idle cash balances. It recommended that the state place its cash balances in interest bearing in-state investments. In the specific circumstances analyzed in the study, placement of the funds in-state would have increased total state income by $270 million and tax receipts by $7.6 million over a three year period. 32 /

Colorado recently arrived at similar findings. 33 / The Colorado linked deposit program rewards financial institutions with a significant lending record in housing, businesses, and agriculture within the state. The 1976 Annual Report of the State Treasurer maintains that even though the interest received by the state in the program was lower than would have been collected if the funds were placed at the highest available rate, the flow of this credit into targeted lending categories has generated additional state tax revenues.

After a detailed analysis of its state investment structure, Massachusetts recently concluded that an effectively operated linked deposit system would be beneficial in its impact on aggregate "in-state" lending and the composition of loans in the state. 34 / A linked deposit system would provide additional funds for banks making loans in categories where the need for credit is especially great. It would serve as an incentive to encourage banks to make changes in their overall lending policies in order to compete more effectively for public deposits. As a result of this report, a linked deposit statute has been enacted by the Massachusetts legislature.

While certain municipalities have adopted linked deposit systems, their effectiveness has not been comprehensively evaluated. In 1977, the District of Columbia

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30 / The Impact Linked Deposit Program for Allocation of Public Funds (Real Estate Research Corp.) 1968.

31 / The Illinois Plan, Alan Dixon, State Treasurer, January, 1973.

32 / Wisconsin Center for Public Policy, Investment Targeting: A Wisconsin Case Study, 1979

33 / 1976 Report of Colorado State Treasurer

34 / Linked Deposit System for Massachusetts; Final Report of the Special Commission on State Investments, July, 1977.

adopted a District Deposit Act which provides that one-third of all District time deposits of three months or more will be divided equally between the two commercial banks and savings and loans which have the best record of lending in targeted areas. The preferred loan categories under the D.C. ordinance include small businesses, housing rehabilitation, and specific community oriented projects recommended by the Mayor.

Although available data is far from complete, the committee has concluded that a linked deposit system, if properly designed, implemented, and publicized, can have positive effects on job creation and encouraging neighborhood development lending.

After hearing testimony about the Chicago and State of Illinois methods of investing their funds, the Committee is convinced that modifications should be made in each process to better utilize public monies to assist investments in small business and job creation. In particular, the Committee recommends that the City of Chicago expand its bank disclosure ordinance to include a linked deposit ordinance to encourage neighborhood lending. The State of Illinois should modify its current linked deposit program to emphasize neighborhood development loans. The next section presents these recommendations in more detail.

The City of Chicago

Facts

The City of Chicago maintains the largest average cash balance (as high as $200 million) and is the largest depositor in Chicago. These monies are deposited at the Treasurer's discretion in the approximately fifty Chicago banks which are designated as eligible city depositories. The Comptroller designates eligible banks as depositories. Once a year the Treasurer advertises for bids among the qualifying depositories and chooses the banks which offer the highest interest rates.

In 1974, the City of Chicago became the first municipality in the country to enact an ordinance requiring disclosure of a bank's lending practices before they would be eligible to become city depositories. This disclosure ordinance has since been adopted by two hundred other municipalities and states. Even the federal government now requires a disclosure component through the Community Reinvestment Act. The Chicago ordinance requires banks to disclose detailed information on demand deposits, time deposits, mortgage loans, commercial and industrial loans, and home improvement loans by census tracts. A bank must sign an anti-redlining pledge before it is eligible to receive city deposits.

Unfortunately, after this voluminous data on bank loan portfolios had been disclosed, the last City Treasurer routinely ignored it and did not use it as a basis for awarding city deposits. As a result, in 1977, two banks qualified as city depositories and received city deposits even though their disclosure statements revealed that they had made no investments in their surrounding communities. 35 /

The Committee feels that depositing city funds in institutions with excellent community investment records would have significant economic benefits to the city. The Illinois and Colorado linked deposit experiences indicate that a Chicago linked

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35 / Much of this background research was conducted by former Alderman Richard Simpson and the 44th Ward Office. A linked deposit ordinance was introduced in the City Council in 1978 where it died in Committee.

deposit program would provide approximately $200 million in city deposits as a "reward" to those institutions who do the best jobs in their neighborhoods as well as offer banks needed short term working capital and funds to cover accounts receivable. The massive bank lending data base collected through the 1974 disclosure ordinance, provides the Treasurer with an excellent foundation to make investment decisions which would maximize business growth and job creation.

Recommendations:

1. The City of Chicago should adopt a "reinvestment quotient" system by ordinance which links deposits of city funds in those banks which reinvest in neighborhood small businesses and communities.

The Committee recommends that the City of Chicago examine its bank disclosure data and deposit its time deposit funds in those banks with the best record of community reinvestment. The ordinance would ensure that these funds are deposited in financial institutions which have maximum reinvestment in Chicago businesses and homes. The ordinance should require the following:

1) The City Comptroller would publish summaries of the commercial, industrial, and residential loan deposit data by census tracts and analyze bank reinvestment in their own community. Currently, the city receives this detailed information from banks and files it.

2) The ordinance would create a system of "reinvestment quotients" which give banks extra points in their bids for city funds which reflect their annual loan record in the following areas:

- commercial loans of $500,000 or less
- mortgage loans for 1-4 unit buildings
- mortgage loans for 5-100 unit buildings
- home improvement loans

In each case, the ratio of these four "preferred" loans to total deposits from Chicago will be the fraction added to the bank's bid. The more money the bank has in these loan categories relative to deposits, the larger the fraction will be and the more their original bid will be raised.

The mechanics of this linked deposit ordinance could be worked out with few if any, administrative difficulties. The Comptroller and City Data Center have already developed a program which translates the lending performance of the banks into some simple ratios printed out by computer. Moreover, since the ordinance would require data that is already in the Comptroller's possession, there would be little additional cost to implement the ordinance.

The Committee recommends that the reinvestment quotient be added to increase a bank's bid even if this bid is slightly below the interest bids of other bidding banks. In other words, if a bank with a favorable community loan record bids 15¼%, it could be given deposit preference over a financial institution bidding 15½% with no community reinvestment loan portfolio.

The Committee has concluded that providing additional city deposits to financial institutions investing in Chicago job generating businesses would help increase the tax base and employment levels in the city. As the Colorado linked deposit

system has shown this expanded community reinvestment would more than offset any minimal loss of interest that might occur. 36 /

2. The City of Chicago should deposit its demand deposits in "segregated" funds according to the proposed community reinvestment quotient.

Two types of funds which could be deposited according to this linked deposit formula are time deposits and city demand deposits for segregated funds. Time deposits are funds placed with a financial institution for extended periods of time, usually thirty days to a year. Demand deposits are placed in accounts equivalent to consumer checking accounts and are used to pay the city's bills and provide for daily financial needs.

Testimony before the Committee indicates that at any one time, approximately $50-100 million in short term demand deposits from segregated funds are deposited by the City Treasurer in financial institutions. These "segregated" funds include bond construction deposits, motor vehicle tax funds, etc., and have been deposited almost exclusively in the largest banks.

The Committee recommends that banks be selected as depositories of "segregated" funds based on the reinvestment formula of the proposed linked deposit ordinance. 37 /

The State of Illinois

Facts:

In 1968, the State Treasurer of Illinois developed the nation's first formal depository effort linked to a bank's performance in making loans considered to be needed for state economic and social development. The Treasurer established a deposit system with three funds, two of which involved the linked deposit concept. The first fund, the Basic Deposit Program, attempted to spread the deposits around the state on a geographic basis as well as receive the maximum yield. While the amounts in the Basic Deposit Program vary according to the cash flow of the state, the amount available has increased from $100 million in 1976 to $375 million in 1978.

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36 / The committee felt that city deposits would never be an effective incentive for Chicago's downtown base since they represent only a small percentage of the total deposit base of these banks. On the other hand, time and demand deposits in "segregated" funds could generate a great deal of competition between community banks if the right reward systems were developed.

37 / Testimony before the committee pointed out that the bulk of city non-segregated demand deposits, approximately $200 million, would be too large an amount to allocate to a series of banks through a linked deposit system. Investments in banks are subject to the strict statutory limitation that public deposits cannot exceed 75% of the capital and undivided surplus of the financial institutions. As a result, these monies have been deposited in the largest Chicago commercial banks. On the other hand, demand deposits in "segregated" funds would be more manageable. Since these deposits would be in smaller amounts, problems of lack of security for capitalization would not generally occur.

The two other state investment programs - Specific Opportunity Program and Community Service Program - are more directly related to community redevelopment activities. The Committee has concluded that the performance of both of these programs requires significant improvement, especially to reflect community development goals and to increase small business growth and job creation.

1. Community Service Program

What Is It?

The Community Service Program (CSP) "rewards" banks with state deposits if their loans are in thirteen "community service" categories, such as student loans, residential mortgages, and hospital loans. If a bank has a large loan portfolio in these community service areas, it is awarded "weighted" interest points and given a preference in its bids for $600 million in state deposits. To be eligible for community service program deposits (which are usually one year time deposits), a bank must include on its bid form the quantity and the amount of loans it has given in these community service areas. If a bank makes a minimum interest bid of no more than half of one percent below the market interest rate, the bank's public service loans can serve to increase the bank's total bid.

In 1979, 986 banks out of a total of 1,246 statewide participated in the CSP and they received $600 million in state deposits. One drawback to the CSP and other state linked deposit initiatives is that there is a one year limitation on time deposits. Cash flow forecasting techniques only permit the Treasurer to accurately project the amount of state funds for deposit for thirteen months. Since this limits the Treasurer's deposits to a short period, banks cannot be assured that sufficient state funds will remain on deposit to finance a seven year business loan or a twenty-five year mortgage.

While the Committee feels CSP holds potential for serving as a stimulus for job creation and neighborhood development, it favors several modifications which would better achieve this objective.

Recommendations:

1) The Treasurer, Department of Commerce and Community Affairs, and the Governor's Office should meet to review the weights given to certain loans to adjust the program to reflect state urban and rural community development goals.

Since the CSP criteria and weightings were developed several years ago, the relative needs of the State of Illinois may have significantly changed. For example, a greater weight is currently provided for hospital construction loans (2.9) than for housing loans even though there is an over supply of hospital beds and a lack of adequate housing. 38 /

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38 / The current CSP weighting system for loans is as follows: student loans (4.0); agricultural loans (3.0); pollution abatement loans (3.0); tax anticipation warrants (3.0); hospital facility loans (2.9); church and private education loans (2.0); FHA and VA residential financing (2.0); loans to Community Development corporations (2.0); loans to Illinois taxing bodies (2.0); public housing construction (1.5); Small Business Administration loans (1.5); Farmers' home loans (1.0); community service loans (1.0).

The Committee believes that the CSP should reward banks which make loans in particular geographic areas, such as distressed or declining urban and rural areas. If the CSP deposits were directed to banks which make loans in areas of high unemployment, the economic base in these areas would be enhanced and more tax dollars would be generated for the state. The creation of a State Linked Deposit Committee, directed by the Treasurer, should give consideration to these points in selecting criteria, weightings, and developing an overall philosophy for CSP investments. 39 /

2) Loans to small businesses, which are currently excluded from the thirteen preferred categories, should be added to the list and heavily weighted.

The CSP weighting criteria provide no meaningful assistance for small business growth and expansion. Only Small Business Administration guaranteed loans are included on the list and even these loans are given only a 1.5 weight, less than half that given to student loans. Since small business expansion is the primary source of new jobs in America, rewarding banks who make these loans has a positive impact on the employment base, tax revenues, and the community economy. Bank loans to small businesses with and without SBA guarantees, especially in distressed areas, should be more heavily weighted in the State CSP. By redirecting the state's entire CSP emphasis from student loans to community development activities, like economic development, more positive benefits to the state economy could be achieved.

2. Illinois Specific Opportunity Program (SOP)

What Is It?

The Specific Opportunity Program (SOP) is the State of Illinois' affirmative linked deposit effort which seeks to encourage new bank redevelopment efforts with state monies rather than rewarding past ones. From 1971-1979, SOP utilized approximately $350 million in state funds for its projects. Funds are deposited in banks based on the Treasurer's individual negotiations with banks. This flexibility has in the past enabled the Treasurer to deposit funds in banks responding to local emergencies, such as Corn Blight (1/71), Harvest Failure (12/72), and Snow Disaster (1/79).

In recent years, the Treasurer's Office has begun to develop new programs focused on community development with SOP deposits. In May 1980, it announced a program designed to provide some home buyers with low interest mortgage loans using the leverage of state deposits in local banks. Despite these commendable efforts, the Treasurer's Office has not received the number of SOP project applications it had hoped for. A great deal more could be done to utilize public deposits to leverage private financing for community development.

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39 / Both the Task Force on the Future of Illinois and the Illinois Committee to Strengthen Community Economies have released reports advocating restructuring of the CSP preferred loan criteria to better reflect community redevelopment objectives.

Recommendation:

Guidelines for eligible SOP projects should be delineated.

Currently, there are no guidelines for what constitutes an acceptable program for SOP deposits and no priorities for the programs that have been established by the Treasurer's Office. The Committee recommends that preference should be given to SOP projects which assist distressed or declining areas, increase the area employment base, and leverage additional private dollars. A primary purpose of the SOP effort should not only be to respond to natural disasters, but also to encourage community development projects which generate tax dollars in declining urban and rural areas.

The Treasurer should also prepare and distribute a document to promote the SOP to banks, municipalities, and community development corporations. At the present time, the Treasurer's Office has confined its efforts to promote the SOP to a one page description. As a result, many eligible institutions are unaware of the program's potential uses for financing local development projects. Moreover, the Treasurer does not have adequate staff to promote the program to local governments and banks to attain maximum participation.

TRUST recommends that the Treasurer's Office expand its marketing effort of SOP by developing a promotional document and increasing its staff to more effectively develop affirmative community bank development programs with Illinois SOP deposits.

B. PUBLIC PENSION FUNDS: STRATEGIC TARGETING TO ASSIST SMALL BUSINESS GROWTH

Potentials for Public Pension Investments

National pension fund assets currently total $500 billion and these pension fund assets are,without question, the fastest growing capital accumulators in the country. It is projected that these funds will grow by at least 10-15% annually to a total of $1.4 trillion in 1985. To put this in perspective, the capital in commercial banks, savings and loans, and credit unions is equal to $1.6 trillion in 1979.

The public is becoming increasingly aware of the enormous potentials of pension funds for community reinvestment and job creation. Groups like unions, public employees, economic development advocates, and elected officials in the Northeastern states are beginning to call for a re-examination of investment practices of major pension funds. 40 / At the present time, over 55% of all private and public employee pension funds are invested in the stock of the country's largest corporations, particularly the Fortune 500. The return on investments made by pension fund managers since 1964 has been in the range of 6-7% and recently yields have not kept pace with inflation.

Pension funds invest primarily in large corporations for two primary reasons. The first is risk. The major concern of the beneficiaries, future beneficiaries,

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40 / See Rifkin,Jeremy and Barber,Randy, The North Will Rise Again, 1978. The book describes how union pension monies in the Midwestern and Northeastern states are used to subsidize the flight of local industries to the Sunbelt states.

asset managers, and fund directors is the preservation of capital- to avoid investments in money losing transactions. As a result, most pension managers are more than willing to trade off potentially high but risky returns for the low risk of an investment in an established corporation. The second factor causing pension investments in large firms is scale. It is much less expensive in terms of staffing and transaction costs to invest $100 million in a large corporation than it is to invest $10 million in ten separate small business loans. As a result of these two factors, no American public pension funds have invested significant portions of their portfolios in job generating small businesses.

Recent studies have also shown that many state and local pension funds invest their capital in firms outside of their state or city areas. This means that the economic opportunity and tax revenues these investments generate do not benefit the pensioners who contribute the funds. An analysis of the investment portfolio of the Ohio public pensions funds, for example, discovered that 92% of public pension monies were invested out of the state. A portion of these investments were in Southern utilities with no direct benefits to Ohio citizens.

As a result of these findings, several states and cities are examining the feasibility of investing a portion of their public pension funds in loan packages which generate economic development in distressed areas. The State of Wisconsin recently completed a two year study, partially financed by the American Federation of State, County and Municipal Employees, which examined the investments of the State Pension Board. 41 / It found that targeting an additional $100 million of pension investments within the state would create at least 3,000 new jobs per year.

The State of Massachusetts Social and Economic Opportunity Council recommended that state pension fund managers "take an active role in supporting economic development within the state and in promoting the state's economic well being". 42 / Both the Wisconsin and the Massachusetts studies recommended that their respective states pension boards begin to invest a portion of their portfolios in loans to small businesses (with 90% Small Business Administration guarantees) which would increase the available number of jobs in urban areas.

Several states have progressed beyond the research stage and are prudently investing pension assets in job creating small businesses. As a result of the Massachusetts study, the State Treasurer is increasing the pension fund's investments in local housing and SBA loans. California pension funds are legally required to consider in-state investments. As a result, they actively seek SBA and mortgage loans which will strengthen the state economy.

In 1973, Kansas created a Special Equity Fund which has invested $98.8 million in Kansas investments, including companies headquartered in major cities and employers who provide essential goods to the Kansas economy. Since its inception, the fund has also heavily invested in federally guaranteed Small Business Administration loans. Since it purchases only the guaranteed portion of the loan, it has no risk of default. It has made $6.4 million of these loans to sixty-four Kansas businesses.

Operation Minnesota, a civic group similar to TRUST, Inc., has demanded a reexamination of the state's public pension investment portfolio and, as a result, the legislature has directed the state pension board to investigate the pension system.

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41 / Wisconsin Center for Public Policy, Investment Targeting: A Wisconsin Case Study, 1979.

42 / Massachusetts Social and Economic Opportunity Council, Investing in Ourselves, June, 1979.

During the past few years, a number of municipalities have started to address the issue of strategic investment of pension fund assets. Berkeley, California and Madison, Wisconsin have adopted revised criteria for evaluating investments which more accurately reflect city policies. The Milwaukee County Public Employee Pension Fund recently voted to seek SBA loans for its portfolio.

While these cities and states have investigated the potential for targeting pension investments to help business growth, Illinois and Chicago have done nothing to examine the use of their billions of dollars of pension assets.

City of Chicago

Facts

The five public employee pension funds in Chicago annually invest approximately $2 billion in assets:

Fund	Investment (in millions)
Public School Teachers	$747.6
Municipal Employees	502.1
Policemen	377.9
Fireman	226.1
Laborers and Retirement Board Employees	187.3
	$2,051.0 43 /

While this figure seems high, it promises to increase significantly in the next few years at a larger cost to the City of Chicago and its taxpayers. Chicago's public pension fund obligations are financed by the already over-utilized property tax. In 1979, Chicago budgeted $123.5 million for pensions which means that one-third of the money Chicago receives from the property tax goes for pensions. Pension funds continue to account for an ever increasing share of the city budget - from $60 million in 1972 to $120 million in 1979. And as long as the number of city employees and their salaries rise, pension requirements will also rise since they are calculated as a percentage of employee wages. 44 /

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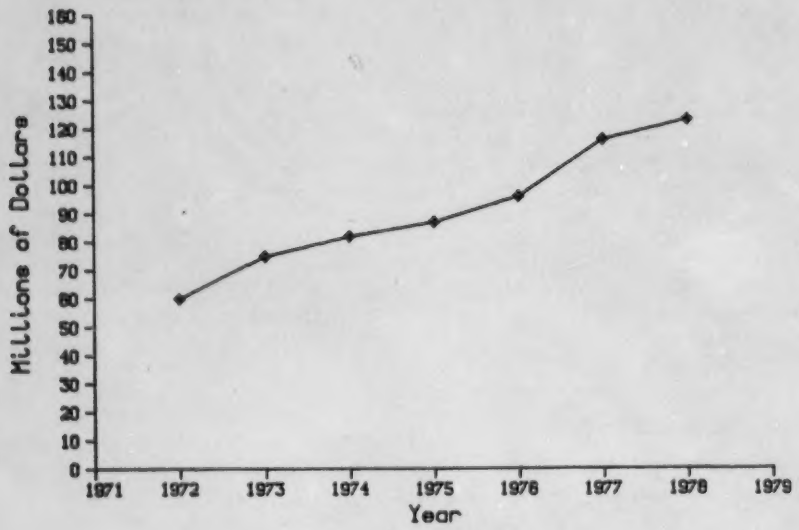
43 / Chicago Reporter, July, 1980

44 / When pension costs of the county unions, the Park District, and the CTA employees are added to the city's expense, an even greater amount of tax money must be collected just to maintain current pension levels.

Growth of Pension Fund Contributions by the City of Chicago 45 /



Unfortunately, very little is known about the way Chicago's public pension funds invest their tremendous assets. While the data is sketchy at best, the Committee heard testimony that less than 5% (perhaps as little as 1%) of Chicago's pension funds are invested in companies that have significant operations in Chicago, such as a factory or office. 46 /

A recent study by the Chicago Reporter discovered that only 16.3% of the $757 million in assets of the teachers' fund were invested in companies with major Chicago operations. It also found that the pattern was similar for the other Chicago funds. The Municipal Employees Fund increased its holdings in foreign corporations from $20.5 million in 1975 to $40 million in 1976 which accounts for one-tenth of its assets. The Firemen's Fund placed one-fifth of its assets in Sunbelt utility bonds.

Adding to the problem of out-of-Chicago investments is the fact that most Chicago pension funds have low yields which do not enable pensions to keep pace with inflation. In 1979, the average return on investments was between 6-7%, largely because Illinois law limits pension manager investments to larger, low yield companies. While these findings are far from conclusive, it is clear that Chicago public pension funds are not being strategically targeted to support small businesses and create jobs within the Chicago area.

A combination of factors has caused this poor investment record in Chicago businesses. First, state statutes set extremely restrictive parameters on the discretion of the pension trustees to invest funds. For example, Illinois law states that a

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45 / 1978 research by the 44th Ward Office.

46 / Testimony before the Committee from Prof. Dick Simpson, former Chicago Alderman, October 12, 1979

pension fund can only invest in companies which are listed on a major national stock exchange; have paid uninterrupted dividends for ten years; and are rated A or better by Standard and Poors. Putting all these restrictions together, only Fortune 500 firms would qualify to receive pension investments under state law. No profitable small businesses, even with sales of $50 million, would qualify for pension dollars since they are usually not listed on an exchange and do not meet other restrictive statutory requirements.

A second factor limiting Chicago pension investments in small business is the composition of the pension boards themselves. Typically, pension board members are not professional money managers and they have little, if any, experience in dealing with the tremendous amounts of dollars under their control.

Adding to this problem is the fact that funds allocated to obtain competent investment advice for the pension boards are inadequate. According to one estimate, each of the five city pension funds pay only $50,000 per fund to investment advisors for investment advice. 47 / As a result, pension funds do not have the staff to screen business loan packages and find the investments which both preserve capital and create jobs for Chicago residents. There is a need for more progressive management of pension funds than there has been in the past. Until this is done, public pension funds will not be able to target some of their investments to help Chicago firms.

While these roadblocks to strategic investments are serious, the Committee feels that they are not insurmountable. State legislation can be changed to permit prudent strategic investment of pension funds. In 1971, the Illinois legislature passed a bill allowing pension fund boards to purchase Israel bonds in amounts up to 5% of their total investment portfolio. 48 / Consultants could be hired with skills in targeting pension investments to increase the screening capabilities of current investment advisers.

At the same time, a great deal of additional research needs to be done before any steps toward strategic investments in small business investments can be taken. Redirecting the composition of a portion of a pension investment portfolio requires an assessment of current pension investments. What alternative, prudent investments exist? What are the transaction costs of screening investments? Fortunately, much of the background research has already been accomplished by other states so that the expenses of a Chicago pension study would be affordable to public and private funding sources.

Recommendations:

1) A Study Commission of the key participants in the pension system should be formed to investigate where pension funds are being spent and if they could be prudently invested in Chicago area companies at higher rates of return.

A Commission composed of pension managers, board members, representatives from unions, the city, and selected bankers would investigate and report on the following:

. Analyze in detail the investments of the five pension funds. Specifically, the following areas will be examined:

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47 /Testimony to the Committee, October 12, 1979.

48 /Chicago Tribune, October 19, 1973

- the economic impact of the funds on Chicago and its employment base
- current yields
- risk levels of current investments
- management and investment advice to pension boards

. What are the legal/governmental requirements which restrict the use of pension funds? What laws would have to be amended,and in what ways,to achieve city investment goals?

. Develop an inventory of progressive pension fund management programs throughout the country, such as those in Milwaukee and Kansas. How could their programs be implemented in Chicago? Should they be? Why or why not?

. Determine whether investment options, such as investment in Chicago based businesses, would preserve pensioners' capital and minimize risk levels.

. Identify ways to "beef up" investment advice to the pension boards to increase yields.

. Identify the legal, administrative and management mechanisms that must be created to implement the Committee's recommendations.

To assist the Study Commission in its work, a consultant should be retained to collect data in Chicago and nationwide and prepare recommendations for Commission approval. After the development of selected statements/observations, the consultant could also organize a training curriculum for pension managers and board members on safe, Chicago based job creating investments.

The formation of the Commission would require the cooperation of unions, the pension boards, and the business community in order to be effective. Cost for the Commission would be minimal. Approximately $30,000 - $50,000 would be necessary to retain a qualified consultant to staff the Commission. The monies could be solicited from private foundations, participating unions, and government sources.

2) The Committee also recommends that the City Treasurer invest short term "demand" pension investments according to the same linked deposit reinvestment quotient used for city funds.

Short term demand pension deposits are usually invested in overnight accounts, treasury bills, and bank certificates of deposit for the purpose of making the money work until the Pension Board makes long term investment decisions for these funds. Currently, the City Treasurer invests these short term pension monies based on bids submitted by the banks. There would be little difficulty for the City Treasurer to invest these monies according to a "reinvestment quotient" formula similar to that outlined previously. The Committee recommends that the City Council use its "moral persuasion" by asking the pension fund boards to allow the Treasurer to invest its monies according to the proposed city linked deposit system. 49 /

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49 /The linked deposit system outlined previously (See p.28) allows banks with excellent community reinvestment records to receive city deposits even if their interest bids are slightly lower than other banks with poor community lending portfolios. With the pension board's obligation to preserve capital, the linked deposit system for pension deposits would be used only to select between banks when interest bids are exactly the same.

The State of Illinois

Facts:

The State of Illinois has five significant pension funds: State Teachers, State Universities, Judges, General Assembly Members, and State Employees, with total assets exceeding $6 billion. The State Board of Investments, created in 1969, invests for three of these funds, while the Teachers and Universities invest their monies separately. The investments of these funds represent a tremendous capital base which is exceeded only by the total assets in the two largest Illinois banks.

While even less research has been completed on state pension investments than on Chicago expenditures, some indications exist that the investments are usually low yield and confined to out-of-state Fortune 500 companies. For example, the State Board of Investment, in 1978, invested its funds as follows: U. S. Bonds - 23%; Canadian obligations - 3%; Corporate Bonds - 28%; Common Stocks - 17%; short term obligations - 26%. Pension managers have made these relatively conservative investments for a variety of factors which include: fear of adding to the state's $6.5 billion unfunded liability; high costs of screening Illinois investment; state legislative restrictions; and reluctance to put funds in projects that are perceived as risky. No data is currently available as to how much of the total pension investments are actually made in Illinois based companies or those with major facilities in Illinois which create jobs.

Without question, investments in job generating Illinois businesses are not a priority for the state's pension fund managers. On the other hand, studies in Wisconsin, Massachusetts, and California indicate that pension funds can be invested strategically (for example, in SBA guaranteed loans) and still protect the interest of current and potential beneficiaries. Illinois has done nothing to examine where its pension funds are being spent and whether they could be prudently and inexpensively invested to better facilitate Illinois economic growth. The Committee would like to see the State of Illinois take steps in this direction.

Recommendations:

The State of Illinois should undertake an intensive study of its pension system: where it invests its resources and whether they could be better invested to serve state goals of economic growth and job creation.

The Committee recommends that the intensive investigation of the Wisconsin study be duplicated in Illinois so policy makers and pension boards can get a better grasp of current Illinois investments and an understanding of what alternative investments exist.

Similar to the study proposed for the Chicago pension system (See p.36), this examination of Illinois pension investments would analyze current fund yields, legal restrictions, and the feasibility of limited investments in Illinois firms. The study would be conducted by a blue ribbon Study Commission which would be composed of pension trustees, union members, bankers, and academicians.

The Commission would be staffed by a consultant who would organize the work of the Commission and undertake both national and local research. Whether the Commission is formed under the auspices of the legislature, as in New York, or the Governor, as in California, it would be a cooperative effort among experts in the

pension and government community to develop cogent recommendations for improving pension fund efficiency. In particular, the study process will draw upon the findings of other states' pension investigations and determine if their conclusions are applicable to the Illinois pension system. 50 /

C. IMPROVING THE PERFORMANCE OF SMALL BUSINESS INVESTMENT CORPORATIONS AS TOOLS FOR SMALL BUSINESS GROWTH

Facts:

As previously discussed, job generating small businesses are in a capital crisis and equity funding for start-up and expansion is becoming increasingly scarce. In 1969, small business was able to raise $1.4 billion in equity capital. However, the Joint Economic Committee of Congress pointed out that from 1975-76, only $16 million in new equity issues were made to American small businesses. This capital gap has created dramatic debt problems for small businesses leading to bankruptcy, low profits, and acquisitions by larger companies. This has severely limited the ability of small business to generate jobs.

Small Business Investment Companies (SBICs) are one potential solution to this equity capital crisis. SBICs are a source of high risk venture capital outside the banking community which pays investors as much as three points above the prime rate. The Small Business Administration guarantees $4.00 for every $1.00 the SBIC raises in private capital. The SBIC then loans the money to small businesses at market interest rates.

Well capitalized SBICs have been extremely cost effective, have consistently outperformed the Dow Jones industrial average, and have had greater gains than the leading growth mutual funds. The cost to government has been $1,000 in loans for each job created, in contrast to the $10,000 cost for each job created through Economic Development Administration loans. Moreover, SBICs have been proven to be profitable. In 1979, SBICs capitalized at over $5 million, returned 18% on the average. 51 /

On the other hand, SBICs have also been characterized by significant problems. Since many SBICs are undercapitalized, managers are usually conservative in their investment policies, and are frequently reluctant to finance start-up ventures. Chicago currently has seventeen SBICs and nine MESBICs (Minority Enterprise Small Business Investment Corporations). All but two SBICs are capitalized at under $5 million.

Clearly, the new jobs, sales, payroll, and income tax generating potential of utilizing SBICs for equity capital formation is significant. Moreover, SBICs could become an integral part of Chicago's neighborhood development effort by providing equity capital in neighborhoods where Local Development Corporations are assisting businesses to obtain debt financing. Unfortunately, despite this potential, SBICs have not become a component of the small business effort of the city or the state.

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50 /The Report of the Task Force for the Future of Illinois has recommended that Illinois study its pension investments with particular reference to strategic investments.

51 /Patterson, James, Capital Base, 1978.

Recommendations:

To more fully understand the potential of SBICs for Chicago's small business growth, the Committee recommends that the city, state, or a private foundation retain a consultant to investigate SBICs.

The consultant would investigate current programs utilizing SBICs for neighborhood economic development in other cities. For example, the city of Buffalo has allocated a portion of its Community Development Block Grant monies to finance a citywide SBIC to provide equity financing for businesses relocating in distressed areas. Testimony presented to the Committee noted that use of these types of government funds to assist the capitalization of SBICs would reduce the risks for managers in specific investments, create a loan loss reserve fund to encourage additional private investors. and provide small businesses with needed equity capital. The consultant would investigate whether such governmental capital injections would be feasible and cost effective in the Chicago area.

The consultant would also evaluate the financial position of the twenty Chicago SBICs and MESBICs, identify their organizational and financial assets and liabilities, and make recommendations for government/philanthropic involvement, if appropriate. Finally, the consultant would develop a technical assistance program to educate local development corporations and banks to the potentials of SBICs as local development tools. This assistance would help the recipient to start up an SBIC, license it, raise the initial private capital, and offer an ongoing management mechanism to help make solid investment decisions. The role would be similar to that of the National Development Council which provides a variety of technical services to assist the expansion of local development companies.

The total initial cost of the project would be $50,000 for the consultant. Staff, SBIC capitalization funds, and other expenses may be required.

SECTION THREE: AN EXPANDED STATE ROLE IN JOB CREATION/SMALL BUSINESS GROWTH

Illinois Role

Officially, Illinois, like every major state, promotes small business growth. It has established a special small business office, and legislators periodically praise the virtues of the innovative entrepreneur and criticize the limited resources of the few state initiatives directed at stimulating the expansion of small firms.

Nonetheless, compared to other Illinois business development efforts, such as attraction of new firms, small business is provided with few, if any, resources. While the Illinois Industrial Development Authority has used its bonding powers to meet the debt capital needs of small firms, since 1971 it has loaned only $2.9 million to forty-five industrial firms. Other state programs, such as the Department of Commerce and Community Affairs Small Business Advocacy Program and its Commercial Strip Technical Assistance Program, are steps in the right direction, but are too limited to meaningfully impact on Illinois small business development. Illinois small business programs are seldom granted the same state support as "Smokestack Chasing" (pursuing outside industries) or retaining large industries in the state.

Even the most outspoken business advocates acknowledge that the road to assisting small business is a rocky one. Helping small business is relatively expensive and risky and the expertise they require is usually beyond the capacity of many state economic development staffs. However, the tremendous contribution of small business to Illinois in terms of job creation, taxes, and neighborhood growth must be addressed by state policy. The difficult question Illinois policymakers must answer is how can state policymakers reduce the capital and management problems of small business.

Other states, notably Massachusetts, have developed some innovative and apparently successful programs to address the needs of small businesses for capital, technical assistance, and initial operating expenses. These state initiatives not only assist the expansion of high growth, high technology enterprises, but also foster the growth of private/public enterprises which create jobs and meet community needs, such as weatherizing homes.

To date, Illinois has not adopted the more successful state models and has yet to develop strategies to assist its volatile but growing small business community. As a first step, the state needs to develop a strategy for economic development - where to target its limited resources to have the maximum impact on state economic growth. 52 / In particular, the Committee feels that the Illinois economic development effort should target resources for small businesses to two areas:

- Capital formation for high growth, high technology small businesses.
- Provide the start-up capital and technical assistance for "community development businesses" which not only provide jobs, but also revitalize a neighborhood, such as housing rehabilitation organizations.

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52 / The Report of the Task Force on the Future of Illinois has recommended the development of a statewide economic development strategy including: reorientation of the state's industrial development program through expansion of businesses; providing capital through private market mechanisms and state investments; and providing assistance to foster local communities through economic development. "Economic Development Report", 1979.

HELPING SMALL BUSINESSES: WHAT OTHER STATES ARE DOING

Several states have creatively utilized their bonding powers, federal discretionary and categorical grants, and tax revenues to develop programs targeted at responding to small business problems. Most of these state initiatives have dealt with providing capital for business expansion and assisting businesses which meet community needs.

A brief description of several of these state projects follows:

1) STATE EFFORTS AT CAPITAL FORMATION FOR SMALL BUSINESS

Recent studies have indicated that there is a critical shortage of available capital for small and medium sized businesses. At the same time the small firms which have the least access to equity and long term debt capital are the ones which are the prime generators of new jobs. 53 /

The role of a state in stimulating reallocations of private capital can, at the most, be a limited one. Nonetheless, several state governments have developed innovative programs to meet the capital requirements of these small, high growth firms, thereby creating additional employment opportunities. Some of the efforts of other states to meet the equity and long term debt requirements of small businesses include: 54 /

Community Development Financial Corporations (CDFC) - Equity Financing

Created by the Massachusetts legislature, CDFC operates in depressed areas and it was established to provide capital to community based enterprises in inner city areas. 55 / In effect, it is a highly innovative state funded development bank. CDFC offers equity and/or debt capital to local community development corporations that are sponsoring for-profit projects which will create jobs in distressed neighborhoods and which cannot be funded through the private market. After a slow start, the $10 million project has now loaned a substantial percentage of its portfolio to over ten private firms. To receive a CDFC equity injection, a percentage of company employees must be hired from depressed areas.

Among CDFC projects are:

- a furniture plant in Dorchester next to a public housing project

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53 / See Footnote 13, p. 7.

54 / For a more in-depth description of state economic development activities, see: Community Economic Development and the States, Center for Community Economic Development, 1979.

55 / A sample piece of legislation for CDFC is presented in the Massachusetts Community Development Finance Corporation , Center for Community Economic Development, 1979. The bill has been introduced twice in the Illinois legislature and the first time it lost House approval by one vote.

- a small high technology firm in conjunction with a local development group

- a supermarket in conjunction with a community economic development project

Community Economic Development Assistance (CEDAC) - Technical Assistance

CEDAC is the technical assistance arm of the Massachusetts CDFC capital fund. It provides technical help to community based organizations that are attempting to start up or continue business ventures which provide substantial benefits to the residents of economically depressed areas. CEDAC's assistance comes as technical advice either from CEDAC staff or consultants hired by CEDAC to work on a specific project. Community organizations and their ventures are assisted by the development of long term economic plans, and a variety of legal, financial, general business and managerial services.

Massachusetts Technology Development Corporation (MTDC) - Product Development

Formed in 1978, MTDC is a publicly capitalized, professionally managed corporation that provides capital for the initial marketing of new products and processes. As initially envisioned, MTDC was to provide equity capital to beginning or existing small companies with new product lines. As implemented, MTDC is biased toward providing debt capital on beneficial terms to existing firms which wish to expand their product lines. It expects to assist forty-eight firms with its $2 million Economic Development Administration revolving fund during the next five years.

Connecticut Product Development Corporation (CPDC) - Product Development

Formed in 1974 to assist state firms develop new technologies, the Connecticut Product Development Corporation has already approved nineteen new product projects. Although many of these projects hold forth the promise of stimulating new job creating innovations as well as royalties to the state, it is premature to judge whether or not CPDC will be able to achieve its goals. 56/

Massachusetts Capital Resources Corporation (MCRC) - Equity Financing

With a highly paid and experienced seven person staff, MCRC has $100 million in capital to invest as equity and debt in fast growing young firms. It is controlled by the major insurance companies located in Massachusetts. These companies invest $20 million for five years in MCRC and MCRC, in turn, invests these resources in rapidly growing, high risk firms which generate a substantial number of new jobs in the state. In return the insurance companies receive an agreed upon tax reduction from the legislature.

"Umbrella" Bond Financing for Small Businesses - Debt Financing

The Connecticut Development Authority and Massachusetts Industrial Finance Agency operate umbrella revenue bond programs. Under this system, several projects are financed with one public bond issue, thus spreading the risk among several ventures. "Umbrella"bonds are more effective for beginning businesses than are self-sustaining industrial revenue bonds since the combined credit of several firms is used to back up the loan.

56/ A bill proposing an Illinois CPDC is currently pending in the Illinois legislature.

2) STATE EFFORTS AT ASSISTING GROWTH OF BUSINESSES WHICH MEET HUMAN NEEDS

A community redevelopment business is a partially self sustaining/not-for-profit business which collects fees for performing a service which meets a community need. These enterprises may be in the areas of energy conservation, food production, and housing rehabilitation. In recent years, a number of community redevelopment businesses have been operating across the country, combining a variety of public and private resources to create jobs, develop the economic base of neighborhoods, and meet human needs.

There are several advantages for using public monies to initially capitalize businesses which serve community needs. First, the enterprise meets a basic human need by weatherizing homes, producing food, and rehabilitating housing. Second, the income generated through the business minimizes the public subsidy necessary to employ and train the disadvantaged worker who is employed in the firm. Finally, the community development work of these firms not only creates jobs for the unemployed, but also increases the self confidence of the disadvantaged worker.

While the potential of utilizing public monies for capitalizing community development businesses is great, severe limitations will have to be overcome. Several of the conditions needed before private and public resources can create community redevelopment businesses include: skillful management, availability of equity and debt capital, and the market opportunities for each particular business. These resources are rarely available to not-for-profit agencies. While these problems are formidable enough, administrative regulations on public funds make it difficult for a community development enterprise to have the administrative and financial flexibility to operate on the private markets. 57 / These limitations must be dealt with before any effective effort at job creation can be undertaken. 58 /

Despite these roadblocks, several federal/state programs have been relatively effective in forming private/public partnerships to meet local needs. These include:

Open Roads

In 1978, Open Roads, a for-profit California based economic development group, was formed and funded by the Corporation for Public Private Ventures, a Department of Labor intermediary. It was formed to purchase and operate several profitable auto repair shops, employing disadvantaged youth who would be trained in automotive repair and who would obtain highly marketable skills. Eight auto repair shops were opened in California and Hartford and by the end of 1979, thirty-two youth had been trained.

57/ As a result of the initial work of the Committee, TRUST Inc. received funding from the State of Illinois to extensively research both in-state and out-of-state community enterprise programs, especially those using CETA slots. The Committee hopes that the new TRUST report, to be released in October, will further encourage the general community development business policy directions outlined in the following section. It will also describe in more detail the successful models of community business utilizing CETA.

58/ For an excellent discussion of the problems and potentials of utilizing CETA for community development business, see, Making CETA Work by James Pitts and Scott Bernstein, 1979.

According to a recent study, the project has been relatively successful, since seven of the eight auto shops have spun off into self supporting ventures. 59 / In addition, training offered to CETA eligible youth provides an excellent introduction to the world of work. In many cities there is a shortage of qualified mechanics, and service stations are a major source of employment. Open Roads has placed 70% of youth participants in jobs after training, 65% in the auto industry.

The Massachusetts Job Creation Experience

By far, the leader in using CETA and state resources for community development businesses and job creation is the state of Massachusetts. Several of the more notable initiatives of the Massachusetts job creation effort include:

- Massachusetts Local Initiatives Program (MLIP)

Massachusetts utilized $1 million of its CETA discretionary monies to fund approximately twenty-five projects employing 275 workers to both provide jobs and improve the quality of community life. Some of the projects funded through MLIP, such as a day care center and a food canning center, have generated income by charging fees.

- Governor's Job Creation Task Force

In 1976, Governor Dukakis created a Job Creation Task Force to investigate new approaches to invest public dollars as private capital to create jobs instead of merely temporarily subsidizing work. The Task Force identified markets in the state where businesses would grow, such as energy conservation, and recommended that the state play a larger role in managing and assisting new job creation efforts in these areas.

- Massachusetts Community Development Unit

As an outgrowth of the Task Force report, the state formed an eight person Community Development Unit to work with community organizations and prime sponsors to encourage the use of CETA in neighborhood revitalization activities, such as weatherization and job creation projects.

Another role of the project is to provide technical assistance with monies from the state's discretionary CETA funds. This assists public service employment projects to generate program income and to provide the projects monies for the purchase of needed equipment and hiring of personnel.

- Community Enterprise Economic Development (CEED)

Located in the State Office of Research and Development, CEED was created to provide grants to community groups to facilitate the planning, development and expansion of community oriented business with a goal of increased jobs and services in low income areas. To date, CEED has approved nine grants to local organizations for planning and development.

After investigating these small business capital formation strategies and community enterprise models, the Committee is convinced that many have potential

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59/ Youth Entrepreneurship and Initiatives, Research and Evaluation, Report # 3. Boone and Associates, Inc. February, 1980.

for replication in Illinois. To be sure, much work needs to be done in order to determine which, if any, of these small business development programs would constitute a cost effective component of the state's economic development efforts. Nonetheless, as a late entrant into the small business/job creation field, Illinois can glean from the experiences of other states to learn what works and what doesn't. In addition, the ongoing TRUST study of CETA/economic development linkages will provide the state with a solid research foundation as it determines its future policy directions.

The Committee has concluded that Illinois should develop a realistic set of programs which will meet the capital formation needs of targeted small businesses and assist the growth of community enterprises. In doing this, it should take the following steps:

Recommendations:

1) The State of Illinois should establish a fully staffed Job Creation/Capital Formation Task Force,based on the Massachusetts model, to assist new and existing job generating small businesses.

In 1976, the State of Massachusetts established two separate Task Forces through the Governor's Office, one to deal with problems of small business capital formation and the other to utilize public resources to fund community redevelopment businesses. As a result of the efforts of these two Massachusetts Task Forces, essential program initiatives were recommended to the state legislature, including the CDFC program, MCRC, the CEED unit, and the Massachusetts Community Development Unit.

The Committee recommends that Illinois develop a Governor's Task Force on Small Business Job Creation and Capital Formation based on the Massachusetts model.

The work of the Illinois Task Force would be performed by two subcommittes, one investigating small business capital formation and the other examining methods to stimulate community redevelopment enterprises.

A. The Capital Formation Subcommittee would develop a coordinated statewide set of strategies and programs to address the capital requirements of high growth, high technology small businesses within the state. The subcommittee's agenda will include the following:

- Study the past performance and replicability of small business capital formation programs in other states.
- Determine the feasibility of commercial mortage lending and "umbrella" bond financing to provide capital for small businesses.
- Consider the expansion of the activities of the Illinois Industrial Development Authority to include a wider package of development incentives for commercial as well as industrial firms.
- Identify the types of Illinois businesses with the greatest expansion and job generation potentials in the next decade.

The Task Force will recommend a legislative package of capital formation projects for Illinois and submit them to the Governor and state legislature for support. The proposals will include project costs, time frames, and how they dovetail with overall state economic development strategies and sources of funding.

B. The Job Creation Through Community Enterprises Subcommittee will focus its work on the following issues:

- What is the growth potential in Illinois for businesses which meet human needs, such as energy conservation, housing rehabilitation, and food production?

- What are the needs of businesses for venture and debt capital? technical assistance? Could state loan pools and senior level technical support from public professionals help meet these needs?

- Should Illinois develop a Community Development Unit to provide technical assistance and funding for administrative costs to public and private efforts to rehabilitate and weatherize homes, produce food, and set up income generating businesses?

The work of the Committee and the soon to be published TRUST CETA Study have done a great deal of the groundwork necessary for this nationwide investigation into the feasibility of developing community ventures in Illinois. This research clearly points to two recommendations which TRUST feels this proposed State Jobs Creation Task Force should implement:

1) Develop a technical assistance program in Chicago and/or downstate to assist the development and expansion of community enterprises.

Most start up or existing business ventures in community development areas require ongoing technical support in accounting, law, insurance, and management. The State of Illinois Department of Commerce and Community Affairs should fund a technical assistance center to provide these services to selected small community development businesses. By shepherding these businesses through start up and expansion problems, jobs would not only be created, but neighborhood needs would also be met.

2) Expand start up funding for community businesses using state CETA discretionary monies and available manpower/economic development funds.

Approximately $15 million is available to the Governor through CETA for discretionary expenditures on CETA related projects. These funds, along with other state resources, could be used to cover operating expenses and staffing of start up community ventures in areas such as energy conservation.

Consultant staff would be key to the effectiveness of both Subcommittees. The consultant's research concerning high growth community development markets and his recommendations for program development to assist business growth would constitute the essential starting off point for the committee's recommendations. While consultant staff would be the major expense, much of the groundwork for the subcommittee's recommendations has already been accomplished by the State of Massachusetts Job Creation Task Force, the current TRUST/DCCA CETA/Economic Development Study, and such groups as the Center for Neighborhood Technology and the Northwestern University Center for Urban Affairs.

The membership of the Task Force must be diverse enough to represent the spectrum of interests involved in these complicated economic issues. It should include carefully screened representatives of financial institutions, universities,high technology firms, community redevelopment enterprises,and key state agencies. It would work closely with the subcommittees of the Illinois Employment and Training Council in developing its final legislative package.

Finally, it is imperative that the Jobs Creation/Capital Formation Task Force receive the complete support of the Governor. Without the Chief Executive's public commitment to the Task Force's legislative recommendations, new programs, and state economic development strategies, its work will be little more than an academic exercise. If the Chief Executive supports the Task Force concept and its recommendations, it is hoped that significant advances can be achieved in stimulating high growth small businesses and creating local enterprises which meet community needs.

SECTION FOUR: PUBLIC INCENTIVES FOR SMALL BUSINESSES HIRING THE DISADVANTAGED

Small business job creation,without additional training or governmental financial incentives, does little to target newly created jobs to untrained, structurally unemployed youth. For this reason, the Committee supplemented its work on job creation and small business development with an investigation of the variety of public incentives which are intended to encourage small businesses to hire disadvantaged, hard-to-employ workers.

In recent years the federal government has shown a great dissatisfaction with the quality of the public incentives to hire the disadvantaged, such as CETA Public Service Employment, Title VI. These programs were seen either as a type of revenue sharing for municipal workers or a form of income maintenance which could not lead to unsubsidized employment. On the other hand, the administration began to see the utility of involving the private sector in job creation and hiring the disadvantaged, especially since available public job opportunities are dwarfed in the face of the massive private employment base.

The administration developed two new private sector programs, Targeted Jobs Tax Credit (TJTC) and the Private Sector Initiatives Program (CETA VII)to give the private sector specific incentives to provide job opportunities for the economically disadvantaged. The programs were designed to counter the business community's justified complaint that CETA red tape hinders private sector participation and that CETA private sector financial incentives are not sufficient to encourage their participation. Unfortunately,despite their significant potential, neither CETA VII nor TJTC have fulfilled expectations in their first year of operation. Due to start up problems, most CETA VII prime sponsors spent less than one-third of their allocations during the first year and most states have not met projected TJTC placement goals. 60 /

One of the problems with this private sector thrust is that most businesses and industries have never even heard of the CETA VII or TJTC programs, let alone participated in them. A National Alliance of Businessmen survey of 809 business people found that only 12% were aware of the CETA VII program. In addition, the red tape these programs were intended to escape is just as prevalent under CETA VII as in the other CETA programs. Private businesses in the Chicago CETA VII program are audited four times during a one year contract, a fact which undoubtedly discourages many businesses from participating.

Finally, there is a policy question of whether the government can or should provide a "satisfactory" level of incentive to business so that they would revise their hiring practices and hire disadvantaged workers. 61 /

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60 / These goals are to place 1% of eligible target population across the country.

61 / One of the goals of these incentives is to lessen the cost of a job for an employer so he will be able to expand the work force at a significant savings. It is unclear whether TJTC or CETA VII actually create new jobs or merely displace old workers.

Despite these difficulties, the Committee believes that these two incentives, TJTC and CETA VII, hold significant potential to target new jobs to the economically disadvantaged in the Chicago area. 62 / These tools, however, require some fine tuning, especially in the areas of marketing, job readiness, and counseling before they can fully realize their potential, especially given their past performance. Another employment effort which emphasizes private sector involvement, the Placement and Retention Program (PAR), also has potential but requires significant modifications before it can fully serve the manpower needs of disadvantaged youth.

This section of the report discusses the existing Chicago private sector manpower incentives, PAR, TJTC, CETA VII, analyzes their performance to date, and presents cost effective suggestions for their modification.

A. Targeted Jobs Tax Credit

What Is It?

TJTC is an elective tax credit that applies to wage costs incurred by employers during 1978-79 for any employees hired after September 26, 1978. The credit is equal to 50% of first year wages (maximum $3,000) and 25% of second year wages (maximum $1,500) for each eligible employee. Employees are eligible for the TJTC credit if they are from seven target groups, including youth 18-24 in economically disadvantaged families and youth 16-18 participating in approved cooperative education programs. 63 /

If an applicant is certified eligible for the TJTC credit, he will receive a single voucher form that will notify potential employers that they will receive the tax credit by hiring the worker. The appeal of TJTC to an employer is its simplicity. When the employee is certified as TJTC eligible by the state or prime sponsor, the employer only needs to report it on his tax return as a credit.

The utilization of the credit by businesses has not fulfilled the mandate of the legislation to help find jobs for the disadvantaged. Since the TJTC law allows employers to claim the credit "retroactively" for individuals employed as far back as 1978, many employers are claiming the credit for individuals they already have on the payroll. This means that TJTC is not being used to create new jobs but merely to subsidize employers for workers they hired up to two years before. The Illinois TJTC coordinator estimates that 75% of the tax credits authorized so far under the Illinois program have been for retroactive or previously hired employees.

In addition, many TJTC workers have been placed in temporary low paying jobs with little hope of advancement. For example, over two-thirds of those receiving the credit through February 29, 1980 have been cooperative education students and a majority of them have been placed in jobs with fast food outlets. Data indicates that 77% of those receiving credit were at or near the minimum wage with salaries between $3.10 - $3.99 per hour.

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62 / For an excellent discussion of the problems and performance of TJTC and PSIP nationwide, see: Leveraging with a Toothpick; Carmer Administration Private Sector Strategy for Job Creation", National Center for Jobs and Justice, September, 1979.

63 / See Footnote 67, p.53.

Finally the program has been all but ignored by the appropriate manpower agencies and prime sponsors in the Chicago area. While a series of training sessions on TJTC was held in late 1979 by the Mayor's Office of Manpower and Training, there was no follow-up training with these groups. One staff person is assigned by the State Jobs Service to deal with the TJTC program statewide and by necessity much of his time is spent processing certifications. The City of Chicago Manpower Office and the Private Industry Council have no ongoing staff effort to promote the program, work with the area manpower agencies, or educate employers to the benefits of the program. As a result, it is estimated that 75% of those placed through TJTC are from downstate or suburban areas. 64 /

As a consequence of these factors, a potentially significant tool for assisting job development for the structurally unemployed is not being used by Chicago prime sponsors or the city's network of manpower agencies. The statewide placement of TJTC certified applicants reflects its ineffective utilization by prime sponsors and community based manpower agencies. 65 / From April, 1979 - February, 1980, placement of TJTC eligibles were as follows:

Placing Agency	# Placed
Vocational Rehabilitation Department	159
Cooperative Education (mostly downstate schools)	4,188
Welfare Department	70
Jobs Service	1,158 (estimated)
Other (including Chicago and downstate manpower groups)	76
All CETA Prime Sponsors	35

This data indicates that the major manpower actors in Chicago, the Mayor's Office of Employment and Training and the network of manpower service agencies, are not utilizing TJTC. In a one year period, manpower groups placed only 111 clients statewide and even fewer were placed by Chicago prime sponsors and manpower groups.

The Committee recommends that the Mayor's Office of Employment and Training revitalize TJTC as a tool for creating jobs for the structurally unemployed by accomplishing the following:

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64 /See TJTC in Illinois, Illinois Employment and Training Council, May, 1980.

65 /Data from State Jobs Service provided to the Committee.

Recommendations

1) The Private Industry Council and the Mayor's Office of Employment and Training should hire a full time TJTC Coordinator to inform, train, and provide administrative supports to area manpower agencies to increase their awareness and use of TJTC. 66 /

While federal regulations make it the responsibility of the PIC and prime sponsors to inform employers and manpower groups about the potentials of TJTC,this has not been done in Chicago. Most job groups are either unaware of the program or do not understand how it could improve their existing employment efforts. The Committee recommends that the PIC hire a full time TJTC organizer to accomplish the following objectives:

- Individually visit all Chicago Manpower Agencies to explain the program and how it could assist their placement efforts.

- Organize a series of business information seminars through the Private Industry Council and chambers of commerce for local employers to explain the program.

- Develop a citywide publicity campaign for TJTC in cooperation with the PIC, the Mayor's Office of Employment and Training, and the Illinois Jobs Service. This would include radio and television public service spots and advertisements in newspapers and trade publications.

- Contact the tax specialists of major corporations,big 8 accounting firms, and insurance companies to explain the benefits of the program.

At the end of a year of intensive marketing and promotional efforts by the Chicago TJTC Coordinator, the Private Industrial Council would evaluate his performance to determine if the increased number and quality of TJTC placements justified the existence of the position.

2) The Mayor's Office of Employment and Training should also expand the number of manpower agencies which can certify applicants as eligible for TJTC.

Currently, the Mayor's Office of Employment and Training can allow local manpower groups to certify economically disadvantaged youth as eligible to receive the TJTC credit. This local certification greatly simplifies the TJTC process for a manpower group since they will be able to avoid dealing with the State Jobs Service bureaucracy in determining client eligibility. Unfortunately, the City of Chicago has only certified certain manpower groups - the seventeen Placement and Retention (PAR) sub-contracting agencies. This limited authorization has the effect of restricting the involvement of the other manpower agencies since they will be forced to deal with the state bureaucracy for certification.

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66 / The state study on TJTC (see Footnote 64,p.51) developed similar conclusions and even went a step further by recommending that each agency participating in TJTC should designate an individual as having responsibility for TJTC referrals and assistance.

For this reason, the Committee recommends that the Mayor's Office of Employment and Training expand participation in TJTC by allowing any responsible community group, especially those with current CETA involvement, to participate in the program. The Committee has concluded that this expanded participation, in conjunction with an active publicity campaign by the TJTC Coordinator, would increase the number of TJTC placements.

Finally, the Committee feels that the seven TJTC eligibility categories are simply too restrictive to fully serve the needs of the structurally unemployed. By limiting TJTC credits to these groups, many individuals who meet CETA criteria for being economically disadvantaged and unemployed for a significant period of time, would be excluded.67 / Moreover, many local manpower agencies with the capacity to use the TJTC tool to facilitate placements are reluctant to do so because their administrative mechanisms are not geared to non CETA, TJTC eligibility categories.

Since it makes no sense to have these seven bureaucratically created categories of economically disadvantaged, the Committee recommends that the Chicago prime sponsors and local Congressmen urge that the credit is provided to all CETA eligibles when its re-authorizing legislation is proposed in 1981.

B. Reforms in the Private Sector Initiatives Program (CETA VII) and IIB

Facts:

A major component of the current administration's private sector employment strategy is the Private Sector Initiatives Program. $400 million has already been budgeted for the prime sponsors to establish Private Industry Councils (PICS), composed of area business men, to get the private sector involved in local employment and training activities for the disadvantaged.

Unlike previous employment efforts, the Private Industry Councils are provided with a great deal of autonomy in developing special experimental programs for the unemployed. CETA VII monies can be used for job readiness, coordinating education with on-the-job training programs, developing apprenticeship programs, and so forth. The flexibility authorized under CETA VII is in marked contrast to the previous private sector jobs effort under CETA IIB. CETA IIB only provides employers a 50% wage subsidy for hiring disadvantaged workers and offers little, if any, counseling. Moreover, the legislatively mandated involvement of big business in the Private Industry Council under CETA VII appears to be an improvement over CETA IIB where business was involved in planning the CETA effort only if the manpower prime sponsor permitted it.

The CETA VII Private Industry Council concept was modelled after a Chicago program which has been in existence since 1972 called the Chicago Alliance of Business Employment Training (CABET). CABET is a consortium of major Chicago businessmen which has utilized CETA IIB monies to develop an impressive number of on-the-job

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67 /Only the following groups are eligible for the TJTC credit:

1. Economically disadvantaged youth, aged 18-24
2. Economically disadvantaged Vietnam-era Veterans
3. Economically disadvantaged ex-convicts (felony)
4. Handicapped persons referred from vocational rehabilitation
5. Youth aged 16-18 who are participating in a qualified cooperative education program
6. Recipients of Supplemental Security Income (SSI) payments
7. Recipients of general assistance (state or locally financed welfare)

training slots (OJT). OJT is a contractual arrangement between CABET and an employer through which disadvantaged workers are hired and trained in a skilled occupation while employed. The employer is reimbursed on a monthly basis for up to 50% of the costs incurred while the person is in the skills training program. Firms are contacted by CABET's sales force of six marketing specialists and the heavy business composition of its Board of Directors accounts for a significant number of the job slots.

Since 1978,however, the excellent performance of CABET in placing disadvantaged workers in job slots has significantly declined. Prior to 1978, CETA regulations permitted CABET to serve individuals who were either unemployed or disadvantaged which meant that an applicant would be eligible for an on-the-job training subsidy if he/she were unemployed for as little as one week. Under the 1978 amendments, CETA's emphasis has shifted to the structurally unemployed and a client is now eligible for IIB or VII only if he/she is both unemployed and disadvantaged. 68 / This means that CETA applicants are now more economically disadvantaged with fewer basic job skills than pre-1978 applicants. The number of CETA IIB enrollees classified as economically disadvantaged increased by 43% from 1978 to 1979 after the CETA amendments took effect.

As a result of these trends, employers are less willing to hire disadvantaged CETA eligible workers and CABET's performance has declined. In the first eight months of 1978, employer contracts were $4.8 million, while in the first eight months of 1979, only $3.6 million in OJT contracts were obtained from local businesses, a 25% decrease. This is significant, especially considering the increasingly positive performance of CABET up to that time. 69 /

Finally, the changes in the regulations appear to be having some effect on the retention rate of CETA eligible clients once they have been placed on the job. In 1978 only 41% of OJT trainees completed their training period and transitioned into full time unsubsidized employment. 70 / With the new CETA OJT client less familiar with the world of work, testimony before the Committee indicates that this retention rate will decline further.

Clearly, the recent problems of CABET stemming from the stricter regulations, call for more innovative approaches in dealing with the less work ready client under CETA IIB and CETA VII programs. New CETA IIB and CETA VII disadvantaged clients, especially youth, require extensive pre-job readiness and counseling support before they will be able to function effectively in permanent unsubsidized employment. The Committee has also concluded that the funds allocated to the Chicago private sector

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68/ Secretary of Labor Ray Marshall estimated that before the 1978 amendments, 75% of the individuals served by CETA were above poverty levels. After the amendments, 95% were classified as disadvantaged.

69/ In fiscal year 1976, CABET developed 2,216 slots at a cost of $2,892 per slot. By 1978, 3,515 OJT slots were obligated at a pre-amendments cost of $2,545 per slot.

70/ This figure is not as disturbing as it initially appears. 41% of those who leave the program do so for "positive" reasons, such as getting another job, returning to school, and so forth. Little data is available about long term retention.

employment efforts through IIB and VII, if properly administered, can make a dent in the problem of structural unemployment in Chicago. 71 /

The Committee also feels that the legislatively authorized flexibility of the $6.9 million CETA VII funding for Chicago permits new approaches which can better meet the job readiness needs of the new CETA eligible participants.

In its investigation, the Committee discovered three inter-related problems with the current administration of the CETA VII and IIB program - inadequate marketing, need for additional counseling and job readiness, and the need to develop CETA VII and IIB programs directed at the specialized needs of neighborhood youth. The following section deals with the committee's recommendations in each of these areas:

Recommendation #1

Improve the Job Readiness and Counseling Supports to the Disadvantaged CETA VII and IIB Client.

Information presented to the Committee indicates that CETA eligible youth,especially after the new regulations, require job readiness preparation to encourage proper work attitudes and to develop survival skills, such as handling pay checks, showing up for work on time, and dealing with a supervisor. Many youth have never held a full time job and are unfamiliar with the world of work. The Chicago Alliance of Business Employment and Training has recognized the need for additional job readiness training and offers its 1300 CETA VII enrollees a one week job readiness program before placing them in full time jobs. Some trainees are provided with CETA sponsored Public Service Employment work experience to ready them for a private sector on-the-job training position. Unfortunately, the approximately 1,300 trainees in the basic on-the-job training IIB program are provided with no job readiness preparation. Disadvantaged CETA trainees are placed in a private sector job often without a conception of proper work attitude or behavior.

The Committee recommends that the ongoing CABET Job Readiness Program be expanded to include CETA IIB enrollees as well. 72 /

The Committee feels that the impact of pre-employment training is significant and that such training not only eases the enrollee's transition into the world of work, but also makes the trained client more marketable to potential private employers. The cost of this program would be minimal. It would include trainee carfare and expenses for expanding the ongoing job readiness course to an additional 1,300 trainees.

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71 / In the current fiscal year, approximately 1,300 IIB slots and 1,300 CETA VII slots are allocated to CABET. An additional 1,000 or so CETA VII slots will be directly administered by the Private Industry Council.

72 / Examples of successful job readiness efforts, which also provide participants descriptions of careers and vocational educational alternatives, are Jobs for Youth (New York, Boston and Chicago), and Youth Service Projects (Chicago). Chicago has incorporated a self directed placement component in this training in which participants are taught not only how to behave on the job, but also how to find a job through development of job search techniques. See survey in AFDC in Illinois, Edmund Mech, State of Illinois Commission to Revise the Public Aid Code, September, 1979, pp. 20-24.

Frequently, when an inexperienced, disadvantaged worker is placed on a job, he/she may encounter personal and job related problems which have a negative impact on his/her job situation. Personal problems adjustment assistance, post placement visits from readily accessible professional counselors, and follow-up in smoothing out employer-employee relations are in some cases essential components of an effective manpower effort.

At the present time, CABET has seven counselors to provide for the individualized needs of its 2,600 enrollees, including follow-up once the training period is complete. 73 / As a result of this low counselor/client ratio, counselors are able to do little more than keep track of where their trainees are. They have little time to ensure that clients remain on the job or handle their personal and employment referral needs. Personal follow-up of clients, once they have completed training is virtually non-existent. While CABET has examined several efforts to increase its counseling capacity, including use of volunteer student interns and senior citizens, it has not yet implemented any effort to strengthen its counseling and follow-up capacity.

For these reasons, the Committee recommends that the current CETA IIB and VII contracts be renegotiated to increase its counseling staff from seven to a more reasonable number which would at least double its present counseling capacity.

The costs of these additional counselors could be charged to client related services so that the limited administrative monies available to the CETA program would not be reduced. The counselors could be used for the following functions:

- Strengthen the follow-up of CABET trainees after completion of training.
- Develop intensive counseling efforts on a high counselor/trainee ratio to determine its effectiveness in increasing retention rates.
- Enable CABET staff to actually have the staff to meet its contractual obligations of personally visiting each client three times during training. (This is clearly impossible given existing client/counselor ratios).

The Committee does not feel that increased counseling supports can do more than serve as one element in a comprehensive program of supports, including education, job readiness, and follow-up. It should clearly not be used in those work situations where an employer feels that the interference of a counselor stands in the way of the relationship he has developed with the worker. Nonetheless, the Committee feels that hard-to-place youth, in particular, will only remain in private sector jobs if they are provided essential supports to prepare them for a job and encourage them to stay at it. Adequate counseling is one of these supports. 74 /

73/ This 377-1 trainee/counselor ratio is not a totally accurate view of CABET's counseling capacity. Not all 2,600 enrollees are on board at one time and many private employers offer their own counseling programs. Further, many employers resent the presence of counselors saying that it interferes with the development of a supervisor-employee relationship since the worker develops more loyalties to the counselor than to the businessmen. Taking these facts into account, the Committee remains convinced that the current number of CABET counselors is insufficient to address the needs of the CETA trainees.

74/ After passage of time, CABET should evaluate the cost effectiveness of this counseling effort in achieving its goals of increased retention or directing trainees to career alternatives that better reflect their needs.

Recommendation #2

Improve the marketing effort of CABET to develop more jobs for disadvantaged workers in the private sector.

CABET's marketing strategy to potential employers has undergone little, if any, modification during the last several years. It is based on a "passive" policy which depends almost exclusively upon repeat contracts with employers (50% or more of CABET's contracts are repeats from previous years) and referrals from businesses that recommend other firms to the program.

The CABET marketing staff does little, if any, active outreach to recruit interested employers. It makes no use of the print media, professional journals, or television and radio public service slots. It has not contacted local business associations on a systematic basis, nor has it developed a program of selective mailings for potential employers.

With the decline of interested employers, due to the change in the CETA regulations, new and innovative approaches need to be developed to recruit more employers. A soon to be released study by Don Kane and Associates for the Private Industry Council has developed a revised marketing strategy which more adequately reflects new marketing needs.

The Committee endorses these recommendations which include:

- Make phone calls describing CETA IIB and VII programs to employers who are determined to be potential contractors.
- Make greater use of print media and public service spots to publicize the program.
- Develop a procedure to select potential employers to receive mailings and follow-up phone calls.

The Committee also concluded that CABET should more effectively utilize the dozens of existing business and industrial councils in the Chicago area to recruit participating employers. This could be done, not only through dissemination of information about CETA IIB and VII to business organizations, but also through direct grants to Chicago area industrial/business councils to develop jobs among their member firms.

The Committee recommends that CABET and/or the Private Industry Council initiate a pilot program with a business/industrial council to develop CETA VII job slots among member firms.

Through their services to member firms, such as loan packaging, technical assistance, etc., several Chicago business associations have earned the confidence of their member firms. This can be an invaluable aid if the business group wishes to develop new CETA slots in its member firms. Many of the business groups have also developed an expertise in operating government programs, and some are familiar with the administration of CETA projects. The Committee feels that funding one or more of these business groups to develop jobs for CETA OJT enrollees would assist CABET's marketing and outreach effort.

CABET would subcontract with an existing industrial or business council to develop CETA private sector job slots with their member firms. The Council could be

reimbursed either on an up front, flat grant basis or a performance contract to cover project costs. 75 / Counseling and job readiness could be provided through a purchase of service arrangement with a neighborhood manpower group. Costs would be for one full time marketer/job developer and for job readiness and counseling supports. Several industrial councils have expressed an interest in participating in such a program. The project could be developed on a one year trial basis and continued only if the evaluation indicates it has proven to be cost effective.

Finally, this pilot Industrial Council CETA VII project would offer several advantages over the current CABET program. It would improve CABET's marketing capacity by involving industrial groups and their dozens of member firms. Moreover, it ensures that placement and supportive services are not provided to trainees on a piecemeal basis. Trainees could be recruited locally, provided pre-employment training in the communities, and placed in a neighborhood job.

Recommendation #3

CABET and the PIC should develop specialized neighborhood manpower programs targeted at the unique job needs of disadvantaged youth.

Despite the fact that nearly one-third of those served by CETA VII and IIB programs are disadvantaged youth, no programs have been developed which address the unique employability problems of structurally unemployed youth. Because of their lack of any previous work experience, to remain on a private sector job, youth require extensive supportive services in such areas as job readiness, counseling, and personal problems adjustment. Providing these youth the same supportive services that are offered to senior citizens, handicapped, ex-offenders, and other CETA eligible groups does little to address these unique job needs. 76 /

For this reason, the Committee recommends that CABET and the PIC utilize the services of Chicago neighborhood youth agencies to develop and operate a program serving the unique needs of youth.

CABET should subcontract with designated youth manpower agencies that would be responsible for client intake, job readiness, counseling, skills training (such as English as a second language) and job development. Several community based youth manpower agencies in Chicago have already established a track record in serving the special job needs of disadvantaged youth.

There are significant advantages in using a local youth group to sponsor this program. Staff from youth agencies are often from similar cultural backgrounds and neighborhoods as the urban youth they serve, and can more readily relate to their problems. These neighborhood agencies gear their job readiness and counseling efforts directly to the needs of youth and have closer contacts with neighborhood employers where youth are placed. In addition, by consolidating these functions

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75/ In a performance contract, the council would be awarded a fixed sum of money for each trainee it has placed in a job it has developed.

76/ The Vice President's Task Force on Youth Unemployment documented these needs on a national level. In 1978, these special needs included: juvenile arrests (under 21) 3,909,500; alcohol abuses (14-17) 3,300,000; use of hard drugs, 87,000; teenage mothers under 20,570,000; teenage heads of households with children (under 20) 257,000; mentally and physically handicapped (18-21) 102,173; homeless youth and runaways (10-17) 698,500.

in one agency, youth would no longer be shuffled from one administrator to another. The youth agency would be accountable to the youth, the employer and CABET for the effectiveness of the OJT experience.

C. Improving the Effectiveness of the Placement and Retention Contracts

What Is It?

The major City of Chicago effort to find permanent unsubsidized jobs for CETA eligible residents is the Placement and Retention Program (P.A.R.). Funded with $1.4 million of discretionary CETA Title IIB monies in the last fiscal year, P.A.R. delegate agencies placed approximately 2,000 disadvantaged residents in private sector employment. Unlike TJTC and CETA VII private sector employment programs already discussed, (see pp. 50,53), P.A.R. does not offer any subsidy to the employer. Simply put, it funds local manpower agencies to find jobs for CETA eligible enrollees.

P.A.R. is different from the typical manpower placement effort in that it does not pay a sponsoring manpower agency any up front administrative costs. A delegate agency is reimbursed by the Mayor's Office of Employment and Training based on the number of CETA eligibles it places and the length of time they are placed. This "payment for performance" creates a financial incentive for the manpower agency to place large number of applicants and to provide them with supportive assistance to stay on the job. Only by performing effectively in placing applicants for a period of time will the P.A.R. agency receive enough reimbursement to cover costs.

While reimbursement to the placing agency is on a sliding scale based on the starting salary and number of months retained, as much as 120% of the first month's salary of the worker can be reimbursed to the agency for a successful three month placement. To receive P.A.R. monies, the nineteen P.A.R. agencies must place CETA eligibles in jobs paying at least $3.10 per hour. The current P.A.R. reimbursement schedule is as follows:

PERCENTAGE OF MONTHLY SALARY REIMBURSEMENT 77 /

Wage Rates	30 days	60 days	90 days
$3.10 to $3.75	25%	35%	35%
$3.76 to $5.00	30%	35%	45%
$5.01 and over	35%	40%	45%

After the change in the CETA regulations, the typical P.A.R. client is now economically disadvantaged, less likely to be job ready, and harder to place. While data is incomplete, testimony from some of the P.A.R. contractors to the Committee indicates that current reimbursement scales do not compensate them for the staff time that is necessary to place economically disadvantaged CETA jobless youth in private sector jobs and keep them there for a significant period of time, especially in a recessionary economy.

77/ Prepared by the Mayor's Office of Employment and Training, April, 1980

In recent months, the Mayor's Office of Employment and Training has recognized these problems and has made several commendable changes, including slightly raising the reimbursement schedules for successful placements and providing that part-time placements are eligible for P.A.R. reimbursement. Nonetheless, this does not appear to be enough to target the P.A.R. program to the needs of the new CETA clients.

To remedy this problem, the Committee recommends that the Mayor's Office of Employment and Training fund a job readiness and follow-up counseling program to assist the P.A.R. agencies in placing the hard-to-employ.

Currently, no monies are available to P.A.R. agencies to develop the type of job readiness and counseling efforts which assist a worker in the transition to permanent unsubsidized employment. A one week job readiness program with funds for follow-up counseling can train the unemployed, especially youth, in job survival skills and increase P.A.R. placement and retention rates. The program would be operated by a local P.A.R. agency and the cost would be minimal, including some funds for follow-up counseling and the costs of operating a one week training program with no subsidy to participants.

APPENDIX I

THE TRUST COMMITTEE PROCESS

TRUST began its investigation of Job Creation and Neighborhood Development in October, 1978 with a series of public forums on Employment and Community Revitalization. The substance of these meetings was published in a booklet, Economics, Youth Unemployment and Neighborhood Revitalization and distributed to over fifteen hundred interested organizations and individuals. The information gathered in these seminars served as the foundation for the more in-depth second phase of the study - The Jobs Study Committee.

In October, 1978 TRUST began to recruit members for its Jobs Study Committee which would gather information and develop recommendations for creating jobs and revitalizing urban neighborhoods. Representatives of government, community groups, and private corporations were contacted by selective mailings and general announcements in TRUST's monthly newsletter. The first working committee meeting was held in late January, 1979. From that time until completion of the study, the Committee had a core membership of thirty.

The Committee was co-chaired by Herbert Neil, Vice President, Harris Bank, and James Pitts, Professor, Northwestern University and Research Director of the Center for Neighborhood Technology. Other active members who represented neighborhood, government, civic and private sector interests included:

MEMBERS OF THE COMMITTEE

Nancy Abbate	Youth Service Project
Lucia Adams	Cook County Manpower Agency
Miriam Apter	South Shore Commission
John Appel	Citizens Schools Committee
Karen Bachner	Chicago Assn. of Neighborhood Development Organizations
David Baker	Illinois 2000
Scott Berman	Lawrence Avenue Development Corporation
Milton Cohen	Jewish Council on Urban Affairs
Carlos Flores	Illinois Commission on Human Relations
J. William Frederickson	North River Commission
Peter Gennuso	Real Estate Research Corporation
Victoria Granacki	Metropolitan Housing & Planning Council
William Howell	Howell & Sisler
Hamilton Jenkins	Chicago Urban League
Jacqueline Leavy	Greater Southwest Development Corporation
Bill Leavy	Youth Service Project
Dick Mariner	Northeastern Illinois Planning Commission
James Patterson	Lawndale Local Economic Development Corporation
Jane Ramsey	Jewish Council on Urban Affairs
Faith Rich	Westside NAACP
Richard Sander	Woodstock Institute
Marion Smith	Old Wicker Park Committee
Jerry Szatan	Chicago Urban League
Charlie Soo	Neighborhood Development Assistance,Inc.
James Watts	Jobs For Youth
Betty Willhoite	Citizens Information Service
Delena Wilkerson	The Neighborhood Institute
Loren Wittner	U. S. Department of Commerce

The Committee met twice a month during the study to hear from experts, discuss economic issues, and develop policy recommendations. Detailed summaries of the information presented by the experts at each Committee meeting were prepared by TRUST staff and sent to seven hundred interested individuals and groups. Supplementary written materials were distributed at each Committee meeting to clarify the comments of the speakers. These materials are listed in the Bibliography on p. 70.

The Committee began its work by examining the complex inter-relationships between jobs and neighborhood development with particular reference to successful program models. After four months of data gathering in such areas as commercial development, urban agriculture, energy conservation, and housing rehabilitation, the Committee spent several sessions narrowing the focus of the study to one area: Job Creation Through Small Business Growth.

After choosing its job creation/small business focus,the Committee began to collect information from manpower and economic development experts on several job creation/small business issues: The Chicago commercial development effort, small business capital needs,public pension funds, CETA and economic development linkages, and private sector CETA programs. During this eight month fact-finding stage, the Committee heard from the following experts:

Scott Berman, President, Chicago Assn. of Neighborhood Development Organizations
Scott Bernstein, Director, Center for Neighborhood Technology
Saul Binder, President, Peterson Bank
Clark Burrus, Senior Vice President, First National Bank
Jim Capraro, Director, Greater Southwest Development Corporation
August Chiddichimo, Director, Neighborhood Planning Unit, City of Chicago
Bob Davenport, National Development Council
Dick DiBona, Director, Chicago Alliance of Business Employment Training
Cynthia Dickey, TJTC Coordinator, Illinois Jobs Service
Carol Dougals, Mayor's Office of Employment and Training
Noel Ebrahim, Governor's Office
Frank Flaherty, Director of Marketing, Chicago Alliance of Business
James Fletcher, Director, The Neighborhood Institute
Michael Freedburg, Conference on Alternative State and Local Policies
Steve Gladden, Pyramidwest Development Corporation
Richard Goullet, The Energy Store
Alan Greiman, State Representative, Illinois House
Ronald Grzywinski, Chairman of the Board,South Shore Bank
Donna Harrigan, Regional Director, Small Business Administration
Robert Heard, Fifth City Development Corporation
Bill Higginson, Assistant to the President, Chicago United
Don Kane, Don Kane and Associates
John Kennedy, Chairman, Cook County Economic Development Advisory Committee
Leanne Lachman, President, Real Estate Research Corporation
Squire Lance, Director, Englewood Concourse Commission
Lou Lanremeyer, Harris Bank
Charles Laven, Director, Urban Homesteading Assistance Board
Bill Leavy,Manpower Director, Youth Service Project
Fidel Lopez, Director, Neighborhood Investment, Continental Bank
Bob Lucas, Director, Kenwood Oakland Community Organization
Bob Lynch, Director, South Austin Realty Association
Dennis Marino, Director, The Woodstock Institute
Mike Nichols, Shlaes & Company
James Patterson, Director,Lawndale Local Development Corporation
Richard Reifler, McDonald's Corporation
Ramon Ruada, Director, Peoples Development Corp., New York City
Sam Sains, Vice President, The Woodlawn Organization

Alan Saks, President, Saxon Paint and Home Care Centers
Fran Shub, Director of Communications, Chicago Alliance of Business
Richard Simpson, Former Alderman; University of Illinois
Charles Sklavanitis, Director, Chicago Economic Development Commission
David Skora, Deputy Commissioner of Planning, City of Chicago
Don Smith, Chief Fiscal Officer, Office of the State Treasurer
Tim Sullivan, Director, Greater North Pulaski Local Development Corp.
Martin Tuchow, Cook County Board Commissioner
James Watts, Executive Director, Jobs For Youth
Joe Williams, Arrow Service Company
Loren Wittner, Regional Representative, U.S. Department of Commerce
David Wright, Director, Neighborhood Revitalization Unit, Dept.of Human Services
Jack Wuest, Director, Alternative Schools Network
Richard Zarbock, Chicago Mushroom Company

Once it had gathered information from these experts, the Committee spent the remainder of the study developing recommendations addressing problems of job creation and neighborhood development. This stage, which lasted three months, involved a review of experts' testimony, identification of problem areas, and a critique of several drafts of preliminary recommendations.

The final stage of the Committee process is perhaps the most important - the implementation stage. TRUST intends to enlist its Board of Trustees, Board of Directors, and Program Advisory Board in the work of the Jobs Study Committee to ensure that these recommendations become an integral part of city and state policy.

APPENDIX II

GLOSSARY OF TERMS AND PROGRAMS

Bank Participation Plan:

A program currently operated in Baltimore, San Francisco and eight other cities to provide fixed asset,long term financing to capital starved small businesses. (See pp. 21-22)

Boston Restore Program:

Restore is a facade renovation program which provides merchants with a 20% rebate (up to $1,000 on a $5,000 project) for facade improvements. The city not only provides a rebate, but also offers participating merchants loan packaging assistance and architectural advice. (See p.17)

Chicago Alliance of Business Employment Training (CABET):

A consortium of major Chicago businesses which have utilized CETA VII and IIB monies to develop on-the-job training slots in Chicago. (See p. 53)

CETA VII (Private Sector Initiatives Program):

A key element of the President's private sector job program, CETA VII monies can be used for a wide variety of experimental programs which place the disadvantaged in private sector jobs. These include job readiness, on-the-job training programs, apprenticeships, etc. (See p. 53)

Community Development Block Grants (CDBG):

Funded by the Department of Housing and Urban Development, Community Development Block Grants are the major federal initiative for the development of urban neighborhoods. In Year VI (1980), Chicago will receive $128 million in CDBG funds, primarily for housing and economic development activities. (See p. 11)

Community Service Program

CSP is the State of Illinois linked deposit program that rewards banks with state deposits if their loans are in thirteen community service categories, including student loans and residential mortgages. (See p. 30)

Cook County Industrial Tax Incentive Ordinance:

Approved in February, 1978, this ordinance reduces the assessed valuation for new industrial construction and substantial rehabilitation from 40% to 16% in eligible areas. As of January, 1980, it had never been used. (See p. 23)

Economic Development and Planning Unit:

A division of the City of Chicago Planning Department, E.D.P. is the City Unit with programmatic and administrative responsibilities for revitalizing Chicago's neighborhood shopping districts. (See p. 13)

Glossary of Terms and Programs (Continued)

Emerging Firms:

Young (under four years), labor intensive, service oriented firms, that often utilize high technology. These firms generate the lion's share of the new jobs in society. (See p. 7)

Interest Underwriting:

A program,currently operational in St.Paul, Baltimore, and New Orleans, that underwrites a portion of the interest costs of job generating businesses that wish to expand. (See pp. 22-23)

Investment Targeting:

The process of strategically investing public pension funds and governmental time deposits in projects that best serve state economic development objectives.(See Sect. II, p. 25)

Linked Deposits:

A government "links" its deposits when it deposits its idle cash reserves in banks with good community reinvestment records. This serves to increase the funds available for such neighborhood development activities as small business expansion, home mortgages, and housing rehabilitation. (See p.25)

Massachusetts Capital Formation Task Force:

A commission created by the Governor of Massachusetts in 1976 to develop state programs to meet the capital requirements of small businesses. Some of the programs it developed include the Community Development Financial Corporation, the Massachusetts Capital Resources Corporation, and the Massachusetts Technology Development Corporation. (See pp. 42-43)

Massachusetts Job Creation Task Force:

Formed to develop programs that would use resources like CETA to create permanent jobs, the Task Force developed several programs linking CETA with local economic development. These include the Development Unit and Community Enterprise Economic Development (See pp. 45-46)

Placement and Retention:

Operated by the City of Chicago, P.A.R. reimburses local manpower agencies for placing disadvantaged workers in private sector jobs based on the number of workers they place. (See pp. 59-60)

Private Industry Councils:

Under CETA VII, $400 million was allocated to prime sponsors to establish P.I.C.s, composed of area businessmen, to get the private sector involved in local employment and training activities for the disadvantaged. (See p. 53)

Reinvestment Quotient:

A component of a linked deposit program that increases a bank's bid for city deposits if it has had a superior record of community reinvestment. (See pp. 28-29)

Glossary of Terms and Programs (Continued)

Small Business Investment Companies:

Financed by private capital and matched with Small Business Administration loans and guarantees, S.B.I.C.s are a source of high risk venture capital outside the banking community. (See pp. 39-40)

Special Service Areas:

Special Service Areas levy taxes on owners of real and personal property within a designated area in order to finance needed commercial improvements and to fund project staff. (See p. 18)

Specific Opportunity Program:

S.O.P. is the State of Illinois linked deposit program that deposits state funds in banks that are financing community development projects and emergency relief. (See p. 31)

Targeted Jobs Tax Credit:

T.J.T.C. is an elective tax credit that provides employers a tax credit for hiring workers who are defined as disadvantaged. (See p. 50)

APPENDIX III

CASE STUDIES OF COMMERCIAL REVITALIZATION

Supported by a variety of trends which include energy conservation and the "back to the city movement", interest in revitalizing commercial strips has significantly increased in recent years. The most successful retail revitalization programs have addressed the entire range of needs of a business district from financing and promotions to public improvements. These projects are characterized by the active support and involvement of viable community and business associations. They include the following five components:

- Site Selection: Areas selected for revitalization should have strong community organization and merchant support, significant development potential, and must be manageable in size.

- Data Collection and Analysis: Market studies are required to identify strip business development opportunities and to encourage businesses to enter the area.

- Physical Changes: Public improvements,such as street furniture, facade improvement, lighting and parking, not only reduce blight, but can transform the entire appearance of the street.

- Management: As with suburban shopping malls, an urban commercial district should have full time staff available to conduct activities such as promotions, strip maintenance, security, and new business attraction.

- Financing: A successful commercial revitalization program helps structure loan packages for local merchants by working with lenders and the government to arrange loans and guarantees.

Several revitalization groups in Chicago and Illinois have had noteworthy success in making this complex strip revitalization process work. Their experiences provide both evidence that the process is effective and clues on how it can be expanded in Chicago's neighborhoods.

Case Study #1: Lawrence Avenue Development Corporation (LADCOR)

In 1974, the North River Commission, a community group serving a transitional neighborhood on the North Side of Chicago initiated an effort to reverse the deterioration of the major commercial street, Lawrence Avenue, and to leverage additional private and public funds into the neighborhood. To accomplish this objective, it formed a revitalization group, the Lawrence Avenue Development Corporation (LADCOR), composed of merchants, community group members, banks, and the local aldermen to spearhead the effort. LADCOR's budget of $120,000 derived equally from community contributions and government funding, has enabled it to hire full time staff and initiate a variety of programs directed at aiding the commercial strip.

These components are abstracted from the following publications: Neighborhood Business Revitalization, National Development Council, 1978; "Neighborhood Commercial Revitalization"; National Council of Urban Economic Development,Mar.'79.

A committee structure is the primary focus of LADCOR's development effort. Its Business Development Committee has "cold called" businessmen from outside the area, urging them to relocate on the street. Another LADCOR committee has encouraged merchants to undertake street physical improvements.After two years of lobbying, the city has installed new sidewalks, benches, and trees along a four block business area. A third LADCOR committee has organized a series of promotional activities, such as street fairs and sidewalk sales,which attract shoppers to the street. An Architectural Storefront Committee has provided architectural assistance to Lawrence Avenue merchants so that they will renovate their stores in harmony with an overall street development plan. The Financial Committee has served as a community based financial broker and loan packager assisting merchants to obtain both conventional financing and federally guaranteed loans.

As a result of LADCOR's efforts, the commercial strip has experienced some significant improvements. No existing business on Lawrence Avenue has lost money since LADCOR's efforts began. This is a tremendous reversal of the trend of sales decline occurring before the commercial effort began. Partially as a result of LADCOR's "cold calls", fifty-seven new businesses have relocated on the street. Further, the housing stock adjacent to the street has begun to improve along with the commercial strip itself. Some building owners have viewed the activities in the retail district as an incentive to fix up their own housing units.

Because of its loan packaging assistance, over $3 million in conventional loans and loan guarantees have been arranged for area businessmen. Finally, LADCOR efforts have had some effect on job opportunities for neighborhood residents. LADCOR estimates that 225 jobs, many of them part-time, are now on Lawrence Avenue that were not there before. Even more significantly, the largest number of retail employees come from within a four block radius of the retail area. These employees are usually high school youth or middle aged women returning to work.

Case Study #2 "Main Street" Revitalization

The "Main Street" project was developed by the National Trust for Historic Preservation to preserve the downtown commercial buildings and the central business districts of small communities. It selected three target cities for the project, all with fewer than 50,000 residents: Hot Springs, South Dakota, Galesburg,Illinois, and Madison, Indiana. Each community's "Main Street" was comprised of one hundred stores. This is the size of many of Chicago's neighborhood shopping areas. As with LADCOR, the Main Street project provided each commercial area a wide variety of revitalization services. To organize the project, each "Main Street" hired a full time Project Director who had skills in community organization, shopper surveys, design, and real estate. The three shopping strips received public improvements, such as new curbs, sidewalks, and benches. Merchants were provided small financial incentives to improve their shop fixtures and rehabilitate their buildings, and promotional events were organized to attract shoppers from the nearby residential community.

Main Street planners soon discovered that hardware public improvements alone do little to improve the commercial district. While these services may be "visible", the Main Street experience indicates that private investment does not automatically follow public improvements on the commercial strip. A comprehensive package of management, promotions, financing, and facade renovation was necessary before the commercial strips began to improve. Finally, while the major value of the "Main Street" project was in upgrading the physical condition of the street and attracting shoppers, a number

of part-time jobs were generated and a significant amount of private investment was leveraged. In Madison, Indiana, for example, for every dollar the National Trust invested, the merchants invested seventeen. The project created approximately fifty three part-time and seventeen full time jobs through expansion of existing firms and new tenant attraction.

These case studies demonstrate that a wide array of activities and programs must be offered to merchants before the economic deterioration of a retail district can be reversed. New streets, benches, and "hardware" public improvements will not by themselves generate the needed injections of private investment capital. They must be part of a comprehensive revitalization package which includes promotions, architectural assistance, facade renovation, loan packaging assistance, community organizing,and site marketing.

Although the committee heard from several other commercial development organizations working in Illinois neighborhoods with different racial, economic and demographic characteristics, the methods proven to be effective appear to be similar. These groups include: Greater Southwest Development Corporation (Marquette Park), Englewood Concourse Commission (Englewood), and Greater North Pulaski Development Corporation (Humboldt Park).

APPENDIX IV

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